



Changes to BT and KCOM's regulatory and financial reporting 2012/13 update

Consultation

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Contents

Section		Page
1	Executive Summary	1
2	Introduction	4
3	Items for Consultation – Presentation and Disclosure	8
4	Outcomes of market reviews concluded in 2012	16
Annex		Page
1	Responding to this consultation	20
2	Ofcom's consultation principles	22
3	Consultation response cover sheet	23
4	Consultation questions	25
5	Glossary	26
A	Form and content of financial statements	28

Section 1

Executive Summary

Background

- 1.1 Relevant, reliable and timely regulatory financial information informs many of our decisions. We require this information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they are found to have significant market power ("SMP").
- 1.2 In this consultation we propose various changes to enhance the presentation and improve the quality of BT's regulatory financial statements ("RFS") reflecting developments over the last 12 months in the regulatory, technological and competitive environment, our ongoing analysis and use of the RFS, comments from users of the RFS and discussions with BT.
- 1.3 We note that at the same time we are conducting a fundamental review of the regulatory reporting framework to ensure that it is fit for purpose, provides good quality data and provides an effective basis for monitoring compliance. We published a Regulatory Financial Reporting Review consultation in September 2012¹ and are planning further publications on regulatory reporting and cost orientation in 2013. The Regulatory Financial Reporting Review has the remit of addressing fundamental issues and proposing changes to financial reporting. In this document we are proposing short term improvements for the 2012/13 RFS.
- 1.4 Our proposed main change to BT's 2012/13 RFS reflects Ofcom's decision in the March 2012 Charge control review for LLU and WLR services ("LLU/WLR charge control review")². A decision was made in this review to remove the cost orientation obligation for certain services in the LLU/WLR market (the "relevant services")³.
- 1.5 As a consequence of the decision in this review we consider that it is appropriate to remove the obligation for BT to publish Distributed Long Run Incremental Cost (DLRIC) and Distributed Stand Alone Cost (DSAC) data for the relevant services. We propose to retain the obligation for BT to continue to collect the information on DSAC and DLRIC costs for these services and provide it to Ofcom on demand. We propose to retain the obligation for BT to publish Fully Allocated Cost (FAC) data for these services.
- 1.6 Other changes on which we are consulting are mainly concerned with improving the presentation of the statements including more granular reporting for growing services and amalgamation of reporting for services that have been withdrawn or where the revenue is very small.
- 1.7 The regulatory financial reporting regime is also applicable to KCOM. This year, however, we have identified no reporting changes relating to KCOM which require consultation.

¹ <http://stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/summary/condoc.pdf>

² <http://stakeholders.ofcom.org.uk/consultations/wlr-cc-2011/statement-march2012/>

³ MPF rentals, MPF ceases, SMPF ceases, Enhanced Service Level Care Services, analogue core WLR rentals and WLR transfers

- 1.8 We have a statutory duty to consult where what is proposed would, in our opinion, have a “significant impact” on a market for any of the services, facilities or apparatus in relation to which we have a function⁴. We consider that the changes we propose would not have a “significant impact” in any of these markets.
- 1.9 In particular, in relation to the proposal to remove the obligation for BT to publish DLRIC and DSAC data for certain services, we consider that while the underlying decision in the LLU/WLR charge control review to remove cost orientation for certain services was a decision which required consultation as it had a significant impact on the relevant market, the proposal in this review is simply a consequence of that decision and does not by itself have a significant impact. Nonetheless, we wish to allow stakeholders a brief period to consider the more technical aspects of the proposed amendments and therefore invite comments on these proposals for a short period.
- 1.10 The tables below summarise the issues and objectives we address in this consultation and outline our proposals.

A) PRESENTATION AND DISCLOSURE (Section 3)

<i>Issue/Objective</i>	<i>Proposal</i>
1) Improved disclosure of AISBO services	
We wish to ensure all main AISBO services are properly disclosed.	<p>We propose to require BT to report EAD Local Access connections and rentals separately as the revenues for these services have grown.</p> <p>We also propose to allow BT to amalgamate certain low revenue services within this market.</p>
2) Improved disclosure of services in WBA markets 1 and 2	
We wish to ensure all main WBA services are properly disclosed.	<p>We propose to require BT to report WBC services separately as the revenues for these services have grown.</p> <p>We also propose to allow BT to amalgamate Datastream reporting into ancillary services due to low revenues.</p>
3) Improved disclosure of services in Call Origination, Call Termination and Point of Handover Markets	
We wish to ensure that main services are properly disclosed.	We propose to allow BT to amalgamate reporting for certain services with low revenues in those markets.
4) Improved accessibility	
We wish to ensure that the RFS becomes more user friendly.	<p>We propose to require BT to publish an Excel version of the RFS online to enable easier use and checks by stakeholders.</p> <p>In light of the above BT has asked to remove the “Average price/FAC” column in market summaries and we agree with this proposal. We consider that this calculation can be easily done from an Excel version of the RFS. The removal of the column will be conditional on BT publishing the RFS in Excel.</p>

⁴ Section 49A Communications Act 2003

B) OUTCOMES FROM MARKET REVIEWS
(Section 4)

Issue/Objective

Proposal

1) Implementation of LLU/WLR charge control review

The review published in March 2012 removed the cost orientation SMP condition that had been previously imposed on BT in respect of certain services in the Wholesale Local Access and Wholesale Fixed Analogue Exchange Line markets.

We propose to reflect the outcome of the LLU/WLR charge control review by removing the requirement for reporting DSAC and DLRIC data for the services where the cost orientation obligation has been removed. BT will still be required to produce DSACs and DLRICs for these services to Ofcom as and when required. BT will still be required to publish FAC data for these services.

- 1.11 BT have also requested that they can amend the look of the Regulatory Financial Statements in 2012/13. This will include re-ordering of some of the reported information. BT has demonstrated that changes to the format or content of information relating to each service will be limited, rather, the proposed change is as to how the information is ordered as a whole, and the changes are intended to make the RFS more user friendly. BT has agreed to provide a mapping of the 'old' look RFS to the 12/13 version in the 12/13 RFS. We agree with BT's proposals on the basis that none of the information that is currently published will be lost. We will be considering the format and content of the RFS in more detail as part of the fundamental review referred to in paragraph 1.3 above, in time for the 2013/14 statement.
- 1.12 The closing date for responses to the consultation as set out in this document is 5pm on 6 March 2013.

Section 2

Introduction

Background

- 2.1 Relevant, reliable and timely regulatory financial information is required to inform many of our decisions. It is essential therefore that the regulatory reporting framework is kept up to date and fit for purpose.
- 2.2 Under sections 87 to 92 of the Communications Act 2003 (the “Act”) there are a range of remedies that can be implemented by Ofcom once it has been determined that an undertaking has SMP in an identified services market. These include obligations:
- to offer cost-oriented charges;
 - not to discriminate unduly; and
 - to cap charges, i.e. charge controls.
- 2.3 When setting SMP conditions, Ofcom is exercising its duties under sections 3 and 4 of the Act. These include the duty to further the interests of consumers in relevant markets by promoting competition and to act in accordance with the six Community requirements, the first of which is to promote competition. Where these obligations have been imposed it is essential that they are monitored and enforced effectively through, in part, an effective regulatory financial reporting framework.
- 2.4 Regulatory financial information is normally prepared either on a regular (e.g. annual) basis for ongoing monitoring purposes or on request, for example in connection with investigations.
- 2.5 BT's RFS, like any form of business information, evolve over time to reflect a range of internally and externally driven factors. These include changes to accounting policies and standards, improved understanding or knowledge of cost drivers, changes in technologies and business processes and changes in the regulatory environment.

Structure of the Document

- 2.6 In Section 3 we set out specific proposals for BT to make improvements to the RFS and, subject to the outcome of this consultation, we expect these changes to be implemented in time to apply to the preparation and publication of BT's 2012/13 RFS.
- 2.7 In Section 4 we set out proposed changes required to the RFS as a result of the conclusions of the LLU/WLR charge control review which we would also expect to apply to the preparation and publication of BT's 2012/13 RFS (subject to the outcome of this consultation).
- 2.8 The reporting changes that we present in this document impact solely on BT. There are no reporting changes which impact KCOM.

Costs and benefits of proposed changes

- 2.9 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making. This is reflected in section 7 of the Communications Act, which means that generally we have to carry out impact assessments where our proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the great majority of our policy decisions. For further information about our approach to impact assessments, see the guidelines, Better policy-making: Ofcom's approach to impact assessment, which are on our website:
http://www.ofcom.org.uk/consult/policy_making/guidelines.pdf
- 2.10 The consultation relates to proposed changes to the regulatory financial information prepared by BT. As noted above, Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on providers in markets where they are found to have significant market power. The regulatory financial reporting regime also provides confidence to the industry that certain ex-ante obligations are being effectively monitored and enforced. The reporting requirements help stakeholders monitor BT's compliance with the obligations and prevent abuse of their market position which could have a negative impact on consumers. The proposals in this consultation are aimed to ensure that these requirements continue to be met in a transparent and proportionate way. Therefore to the extent that an effective financial reporting regime contributes to a competitive telecommunications market, there will be a benefit to citizen and consumers.
- 2.11 The purpose of the consultation is to update the Directions to ensure that the information that BT is required to report is appropriate in light of the conditions set elsewhere in the regulatory regime (for example, market review or dispute outcomes). We have proposed changes that will implement an adjustment arising from a recently completed charge control review and some other improvements to reporting identified through our work on market reviews and other relevant matters, as well as information from BT on the expected growth and decline of certain products. We seek to ensure that the data reported in the RFS remain relevant and useful for stakeholders.
- 2.12 In preparing this consultation we have discussed our proposals with BT in order to understand the likely impact on them and to understand any implementation difficulties that are likely to arise.
- 2.13 We have taken into account the burden on BT in implementing all the proposed changes. We have weighed this against the benefits of more relevant, reliable and understandable reporting. The analysis set out in Sections 1 to 4 of this document contain an impact assessment relating to our proposals.

Legal Tests

- 2.14 In order to implement our proposed changes, Ofcom will need to modify Direction 4 under SMP condition OA2. For this purpose, for each proposal we show how our duties have been met under sections 3, 4, 4A and 49(2) of the Act. We also show how the statutory procedures for domestic and EU consultations for the modification of directions that give effect to SMP obligations, as set out under section 49A and 49B of the Act, do not apply.

Sections 3, 4 and 4A – general duties, the six Community requirements and the duty to take account of European Commission recommendations for harmonisation

- 2.15 Section 3 of the Act sets out Ofcom's duties in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- 2.16 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- 2.17 Section 4A of the Act requires Ofcom to take into account all applicable recommendations issued by the European Commission under Article 19(1) of the Framework Directive⁵.

Section 49(2) tests

- 2.18 Ofcom can modify a direction that gives effect to an SMP obligation under section 49⁶ of the Act but only where it is satisfied that the tests under section 49(2) have been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b) not unduly discriminatory against particular persons or against a particular description of persons;
 - c) proportionate to what it is intended to achieve; and
 - d) transparent in relation to what it is intended to achieve.

Sections 49A and 49B

- 2.19 Sections 49A and 49B set out the relevant procedures that must be followed for domestic and EU consultations respectively on proposals to modify directions. Section 49A applies where the proposals are for the purposes of:
- a) an SMP apparatus condition⁷; or
 - b) any other condition set under section 45 where what is proposed would, in Ofcom's opinion, have a significant impact on a market for any of the services, facilities, apparatus or directories in relation to which Ofcom has functions under Chapter 1 of Part 2 of the Act⁸.

⁵ Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common framework for electronic communications and services (OJ L 108 24.04.2002, p33), as amended,

⁶ As amended by the Electronic Communications and Wireless Telegraphy Regulations 2011/1210.

⁷ See section 49A(1)(a).

⁸ See section 49A(1)(b).

- 2.20 Section 49B applies where the proposals are of EU significance. Section 150A(2) sets out the cumulative criteria that must be satisfied in order for a proposal to be of EU significance.

Ofcom considers that the proposals and changes set out in Sections 1 to 4 of this document are necessary and appropriate because they represent amendments and enhancements required to maintain the relevance and usefulness of the financial statements. Given that the proposed greater granularity of AI and WBA services reporting is at the level at which BT already collects cost and revenue information, and that BT already produces an Excel RFS, Ofcom does not expect the proposals to result in a significant incremental cost to BT.

Conclusion

- 2.21 Ofcom considers that the proposals and changes set out in Sections 1 to 4 of this document are necessary and appropriate because they represent amendments and enhancements required to maintain the relevance and usefulness of the financial statements. Given that the proposed greater granularity of AI and WBA services reporting is at the level at which BT already collects cost and revenue information, and that BT already produces an Excel RFS, Ofcom does not expect the proposals to result in a significant incremental cost to BT.
- 2.22 We will work closely with BT to ensure the implementation of the final requirements is carried out as efficiently as possible.
- 2.23 Responses to the consultation and the questions raised in sections 3 and 4 are due by 5pm 6 March 2013.

Section 3

Items for Consultation – Presentation and Disclosure

Introduction

3.1 In this section we propose changes to the level of detail which BT is required to report in relation to certain services. These changes relate to BT only.

Disclosure of AISBO Services

Summary of Proposed Change

3.2 We propose to require BT to:

- Report separately:
 - External and internal EAD Local Access connections across 10Mb, 100Mb and 1000 Mb bandwidths⁹;
 - External and internal EAD Local Access rentals across 10Mb, 100Mb and 1000Mb bandwidths.¹⁰
- Amalgamate BES and WES connections into 'Other Ethernet connections' reporting.¹¹

The exact detail of the above reporting changes is outlined in Annex A on pages 30-32.

Objective of Change

3.3 In our 2010 Statement on Changes to BT and KCOM's regulatory and financial reporting¹² (the "2010 RFS Statement") we identified that the AISBO market was

⁹ The proposal is to split existing 'Ethernet Access Direct connection' reporting into the following services:

- Ethernet Access Direct Local Access connection,
- 'Ethernet Access Direct other connection'.

This split would apply separately for internal and external connections and for each of the 10Mb, 100Mb and 1000Mb bandwidths.

¹⁰ The proposal is to split existing 'Ethernet Access Direct rental' reporting into the following services:

- 'Ethernet Access Direct Local Access rental'
- 'Ethernet Access Direct other rental'.

This split would apply separately for internal and external connections and for each of the 10Mb, 100Mb and 1000Mb bandwidths.

¹¹ We are proposing to:

Amalgamate the following service into "Other internal Ethernet connections":

- Wholesale extension services connections – Internal;

Amalgamate the following services into "Other external Ethernet connections":

- Wholesale extension services connections – External
- Backhaul extension services other bandwidth connections – External.

¹² The Changes to BT and KCOM's regulatory and financial reporting 2009/10 update Statement, published in May 2010:

<http://stakeholders.ofcom.org.uk/consultations/btregs10/statement/>

growing significantly and a charge control had been imposed in 2009. We emphasised the importance of BT disclosing reliable financial information for each main service provided in this growing market.

- 3.4 In our 2010 RFS Statement we required BT to increase the level of granularity of reporting to include services such as Wholesale Extension Services (WES), Ethernet Backhaul Direct (EBD) and Ethernet Access Direct (EAD). This allowed reporting to properly capture fast growing services and disaggregate services with significantly different price/volume mixes.
- 3.5 This improved analysis of services in this market has improved our monitoring of BT's compliance with its no undue discrimination and cost orientation obligations.
- 3.6 In our 2011 RFS Statement we further split EAD reporting by bandwidth in order to aid transparency in this growing market.
- 3.7 We have now identified that EAD Local Access Services are growing with forecast revenue of over £10m in 2012/13. We therefore propose to require separate EAD reporting of Local Access connections and rentals across bandwidths in order to aid transparency.
- 3.8 On the other hand, WES and BES connections were withdrawn from new supply in June 2012. As a result revenues across all bandwidths are expected to be less than £1m in 2012/13 and decline in the future. In the light of this we propose to amalgamate WES and BES connections reporting into one line - 'Other Ethernet connections' reporting - in the RFS¹³.
- 3.9 This is to ensure the RFS focuses on the main regulated services produced by BT and these are not obscured by the reporting of many small services.

Disclosure of WBA Services

Summary of proposed Change

3.10 We propose to require BT to:

- Report separately Wholesale Broadband Connect ("WBC") revenues, across WBA markets 1 and 2¹⁴
- Amalgamate Datastream services into 'Ancillary services' reporting.¹⁵

The exact detail of the above reporting changes is outlined in Annex A on pages 37-40.

¹³ WES services are reported on page 51 of the 2011/12 Regulatory Financial Statements in the following lines: Wholesale extension services connections – internal; Wholesale extension services connections – external. BES services are reported on page 52 of the 2011/12 Regulatory Financial Statements in the following line: 'Other external Ethernet connection'.

¹⁴ "WBC" services are currently reported in Ancillary Charges. We propose to report separately the following services:

- Wholesale Broadband Connect bandwidth
- Wholesale Broadband Connect End User Access.

Internal and external variants both for WBC market 1 and 2 will be reported separately.

¹⁵ We are proposing to amalgamate the following services into 'External ancillary charges' in WBC markets 1 and 2:

- External Datastream virtual path
- External Datastream end user access rentals.

Objective of Change

- 3.11 The above services are all reported as a result of the Wholesale Broadband Services Market Review in December 2010. The requirement to report on these services was implemented in the RFS 2010/11 statement where BT were required to report relevant market information including revenues, fully allocated costs (FAC), and incremental costs (LRIC).
- 3.12 WBC services, which are currently reported within WBA ancillary services, have grown since their introduction in 2008. Across markets 1 and 2 the revenues are expected to be approximately £65m for WBC end user and £60m for bandwidth revenues. We are proposing to require BT to separately report these services in WBA markets 1 and 2 to increase transparency.
- 3.13 Datastream services are declining and will be withdrawn from new supply in June 2013. Forecast revenue is approximately £1m for end user revenue and £5m or lower for bandwidth revenues in each WBA market. We therefore propose to amalgamate Datastream services reporting into ancillary services.
- 3.14 This is to ensure the RFS focuses on the main regulated services produced by BT and these are not obscured by the reporting of many small services.

Disclosure of services in call origination, call termination and Point of Handover markets

Summary of proposed Change

- 3.15 We propose to amalgamate some of the services reported separately in the above markets in 2010/11, which have low revenues and costs. The detail of the reporting changes is in Annex A on pages 34-36.

Objective of Change

- 3.16 Services in the Call Termination Market and Call Origination Market are reported as a result of the outcome of the Review of Fixed Narrowband Service Markets published in October 2009. Point of Handover services are reported as a result of the outcome of the Business Connectivity Market Review published in February 2010.
- 3.17 BT have advised us that there are some services with very low revenues in these markets and we propose to amalgamate reporting for these services in order to enable reporting to focus on the main regulated services.
- 3.18 Namely, in the Call Origination Market we propose to amalgamate two internal services : 'Internal Wholesale call origination local exchange Stick' and 'Internal Wholesale call origination local exchange Stick (ISDN)'. The combined revenue for these services was £3m in 2010/11 and £2m in 2011/12. The revenue is forecast to be approximately £2m in 2012/13.
- 3.19 In the Call Termination Market we propose to amalgamate two internal services : 'Internal Wholesale call termination local exchange Stick' and 'Internal Wholesale call termination local exchange Stick (ISDN)'. The combined revenue for these services was £3m in 2010/11 and £2m in 2011/12. The revenue is forecast to be approximately £2m in 2012/13.

- 3.20 In the Point of Handover Market, as some Point of Handover services are immaterial, BT suggested to split External 3rd Party POH Rentals services between charges for equipment and charges for circuits, and to only publish POH services by bandwidth where the revenue for the bandwidth is over £1m. We consider that this is a sensible proposal given the size of the market.
- 3.21 The proforma statement showing the changing reporting for services that we propose to report separately or amalgamate in the regulatory financial statements is in Annex A of this document.

Legal Tests

- 3.22 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4, 4A and 49(2) of the Act to implement these changes below.

Section 3, 4 and 4A

- 3.23 As noted above, as part of the relevant EU market review processes Ofcom has imposed wholesale cost accounting and accounting separation obligations (through SMP conditions and associated directions) on BT in specific identified markets as part of the appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3, 4 and 4A of the Act. In relation to the products and services listed below, the relevant market reviews are:
- 3.23.1 AISBO products and services – Business Connectivity Market Review, February 2009.¹⁶
 - 3.23.2 Wholesale Broadband Access products and services - Wholesale Broadband Services Market Review, December 2010¹⁷.
 - 3.23.3 Call Origination, Call Termination – Review of Fixed Narrowband Service Markets, October 2009¹⁸
 - 3.23.4 Point of Handover services – Business Connectivity Market Review, February 2010¹⁹
- 3.24 The proposed changes are designed to enable BT to more effectively and efficiently fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination) by:
- 3.24.1 disclosing information about the above products and services in more detail, where these products and services have grown in significance in the relevant regulated markets. It is therefore appropriate for BT to disclose more information about them, in order to comply in a meaningful way with the relevant cost accounting obligations; and .
 - 3.24.2 amalgamating the reporting of certain low revenue products and services, for which reporting in this way is no longer needed, which also allows BT to focus reporting on the most important products and services, so that the

¹⁶ <http://stakeholders.ofcom.org.uk/binaries/consultations/bcmr08/statement/statement.pdf>

¹⁷ <http://stakeholders.ofcom.org.uk/binaries/consultations/wba/statement/wbastatement.pdf>

¹⁸ http://stakeholders.ofcom.org.uk/binaries/consultations/wnmr_statement_consultation/statement/statement.pdf

¹⁹ <http://stakeholders.ofcom.org.uk/binaries/consultations/bcmr08/statement/statement.pdf>

reporting of many small revenue services does not obscure the focus on the main reported services.

- 3.25 In consequence Ofcom believes the proposed amendments to Direction 4 meet the tests in Sections 3,4 and 4A.
- 3.26 In proposing the changes to Direction 4, Ofcom has also taken into account all applicable recommendations issued by the European Commission under Article 19(1) of the Framework Directive, in particular Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications²⁰.

Section 49(2) tests

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

- 3.27 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.2 to 3.21 and Annex A is objectively justifiable. We are proposing reporting for certain services at a greater degree of granularity and amalgamating the reporting of certain low revenue services. This is consistent with forecast growth of revenues for these services. The modification would therefore allow us better to monitor whether BT is complying with its non-discrimination and cost orientation obligations in these particular markets, and is necessary for that purpose.

Not unduly discriminatory against particular persons or against a particular description of services

- 3.28 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.2 to 3.22 and Annex A is not unduly discriminatory. BT is the only communications provider with SMP in the AISBO, WBA, Call Origination, Call Termination and Points of Handover markets which provides the relevant (or similar) services externally. KCOM, the only other communications provider with similar obligations, does not provide these or similar services externally.

Proportionate to what it is intended to achieve

- 3.29 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.2 to 3.21 and Annex A is proportionate. In proposing to amalgamate the reporting of certain services, we are modifying BT's regulatory obligations so that the reporting of many small revenue services does not obscure the focus on the main reported services. However, WBC and EAD revenues have grown and therefore greater granularity of reporting would allow us to monitor more effectively BT's compliance with obligations regarding those services. The extent of BT's obligations would therefore correspond with the purpose and effect of the RFS: to allow us to monitor that BT is complying with its non-discrimination and cost orientation obligations in the relevant markets. The proposed modifications are, accordingly, no more than necessary for BT to demonstrate compliance with its obligations in the AISBO, WBA, Call Origination, Call Termination and Point of Handover markets, as well as

²⁰ OJ L 266 11.10.2005, p64. This recommends, amongst other things, that "a national regulatory authority, when assessing the features and specifications of the cost accounting system, reviews the capability of the notified operator's cost accounting system to analyse and present cost data in a way that supports regulatory objectives", and that "national regulatory authorities make relevant accounting information from notified operators available to interested parties at a sufficient level of detail" (see paragraphs 3 and 5 respectively).

providing assurance to market participants that products and services are not being provided on discriminatory terms.

Transparent in relation to what it is intended to achieve

- 3.30 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.21 and Annex A is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

Section 49A

- 3.31 Section 49A(1)(a) does not apply because Ofcom is not proposing to modify Direction 4 for the purposes of an SMP apparatus condition. Section 49A(1)(b) does not apply because, on the basis of the analysis and impact assessment set out in this consultation, in Ofcom's view our proposals would not have a significant impact on a market for any of the services, facilities, apparatus or directories in relation to which we have functions under Chapter 1 of Part 2 of the Act.

Section 49B

- 3.32 Section 49B does not apply because our consultation proposals are not of EU significance, as defined under section 150A(2), in particular because in our opinion, given the nature and limited extent of the proposals on which we are consulting and on the basis of the analysis and impact assessment set out in this consultation, these proposals would not affect trade between Member States²¹.

Question 1: Do you agree with Ofcom's proposed amalgamation of certain low revenue disclosed services in the AISBO, WBA, Call Origination, Call Termination and Point of Handover markets?

Question 2: Do you agree with Ofcom's proposal for separate disclosure of EAD Local Access and Wholesale Broadband Connect services?

Accessibility improvements

Proposed Change

- 3.33 We propose to require BT to publish the RFS online in an Excel format, linking the information in the Excel file as far as practicable.
- 3.34 We also propose to remove the average price/FAC column from market summaries in Annexes 11,12 and 13. This is because the publication of the RFS in Excel format will enable stakeholders to easily recreate the calculation.

Objective of Change

- 3.35 We recognise that the RFS contain large amounts of data and each year we seek to find ways to improve the presentation and make the accounts more accessible and focussed on the main regulated areas.

²¹ The cumulative criteria that must be satisfied in order for a proposal to be of EU significance include the criterion that the proposal would, in Ofcom's opinion, affect trade between Member States(see section 150A(2)(d)).

- 3.36 This year we propose to require BT to publish an Excel version of the RFS online. We hope that this will improve the usability of the RFS for stakeholders by enabling them to perform calculations involving RFS data more easily.
- 3.37 Because the Excel version will make simple calculations easy to perform, we propose to remove the average price/FAC column from market summaries.

Legal Tests

- 3.38 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4, 4A and 49(2) of the Act to implement these changes below.

Sections 3, 4 and 4A

- 3.39 As part of the relevant EU market review process Ofcom has imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as part of the appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3, 4 and 4A of the Act. The proposal to require BT to disclose its RFS in Excel format is designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination), as it will make the RFS more accessible for other stakeholders, and improve usability and therefore increase transparency. The changes improve the presentation and usefulness of the RFS and in consequence Ofcom believes the proposed amendments meet the tests in Sections 3, 4 and 4A.
- 3.40 In consequence Ofcom believes the proposed amendments to Direction 4 under SMP condition meets the tests in Sections 3, 4 and 4A.

Section 49(2) tests

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

- 3.41 Ofcom considers that modifying Directions 4 in the manner described in paragraphs 3.33 to 3.37 is objectively justifiable. As a result of its regulatory accounting obligations, BT provides detailed information on a large number of products and services in a number of relevant markets. The RFS is a long and complicated document, containing large amounts of data, which is used by Ofcom and stakeholders to amongst other things, monitor BT's compliance with its non-discrimination and cost orientation obligations. Provision of the accounts in an Excel format will help make the accounts more user-friendly and accessible for stakeholders, and thus aid transparency.

Not unduly discriminatory against particular persons or against a particular description of services.

- 3.42 Ofcom considers that modifying Direction 4 in the manner described above is not unduly discriminatory. BT's regulatory accounts are far more complex and longer than the accounts produced by KCOM. There is therefore less of a need for KCOM to publish its accounts in a Excel format as its accounts are easier for stakeholders to understand.

Proportionate to what it is intended to achieve

- 3.43 Ofcom considers that modifying Direction 4 in the manner described above is proportionate. It is necessary for BT to report a large amount of information on the relevant services in the relevant markets, as set out above. We consider that as BT already produces an Excel version of the RFS, it is not disproportionate to require that this be published, in order to aid transparency. .

Transparent in relation to what it is intended to achieve

- 3.44 Ofcom considers that modifying Direction 4 in the manner described in paragraph 3.33 to 3.37 is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material.

Section 49A

- 3.45 Section 49A(1)(a) does not apply because Ofcom is not proposing to modify Direction 4 for the purposes of an SMP apparatus condition. Section 49A(1)(b) does not apply because, on the basis of the analysis and impact assessment set out in this consultation, in Ofcom's view this proposal would not have a significant impact on a market for any of the services, facilities, apparatus or directories in relation to which we have functions under Chapter 1 of Part 2 of the Act.

Section 49B

- 3.46 Section 49B does not apply because this proposal is not of EU significance, as defined under section 150A(2), in particular because in our opinion, given the nature and limited extent of the proposal on which we are consulting and on the basis of the analysis and impact assessment set out in this consultation, this proposal would not affect trade between Member States.

Question 3: Do you agree with the proposed changes to the presentation of the RFS?

Section 4

Outcomes of market reviews concluded in 2012

Introduction

- 4.1 There is one specific market review which triggers potential changes to BT's RFS: the LLU/WLR charge control review, which was published in March 2012. This present consultation is the device by which we propose to implement these changes to BT's regulatory reporting requirements.
- 4.2 It should be noted that this year we are proposing no regulatory reporting changes which relate to KCOM's RFS.

LLU/WLR Charge Control Review

Implications for BT

- 4.3 The main outcome of the LLU/WLR charge control review insofar as affects BT's regulatory financial reporting, was the removal of the cost orientation obligation for a number of services, as set out below.

Summary of proposed change

- 4.4 We propose to remove the the obligation for BT to publish DLRIC and DSAC information for the services where the LLU/WLR charge control review removed the cost orientation obligation. We propose to require BT to continue to produce and publish FAC data for these services. We also propose to require BT to produce but not publish the DSAC and DLRIC for these services.

Description

- 4.5 The LLU/WLR charge control review removed the cost orientation obligation for the following services:
- MPF rental
 - MPF cease
 - SMPF cease
 - Analogue core WLR rental
 - WLR transfer
 - Enhanced service level care services.
- 4.6 Accordingly, we need to consider how the removal of cost orientation obligation for these services should be reflected insofar as BT's regulatory financial reporting is concerned.

- 4.7 A cost orientation obligation requires that services be sold at a price that is derived from a measure of the costs of providing those services. Ofcom's practice has been to consider that charges comply with cost orientation if they lie within the range of DSAC to DLRIC, and to apply this test taking into account a number of other 'non-mechanistic' factors. These cost measures test whether a price is excessively high or low by defining varying amounts of common costs to be allocated to a given product, in addition to the incremental costs of provision.
- 4.8 In light of the decision in the LLU/WLR charge control review not to apply cost orientation obligations for the services listed above, we have further considered whether it is still appropriate for BT to be required to a) produce DLRIC and DSAC figures for these products/services and b) to publish the DLRIC and DSAC figures for these services in its Regulatory Financial Statements (RFS).
- 4.9 Our current view is that we should still require DLRIC and DSAC figures to be collected for these services. One reason is that we use these figures to inform our decisions about whether to apply starting charge adjustments in charge controls. These figures may also be useful as indicators of SMP or to set future cost orientation obligations. We therefore propose to maintain the obligation for BT to produce these figures.
- 4.10 BT is currently required to publish DLRIC and DSAC figures for the services in its RFS in order that CPs may gain confidence regarding BT's compliance with cost orientation obligations. As cost orientation obligations no longer apply, the primary purpose for publication of these figures therefore falls away. Therefore, our proposal is that BT should not be required to publish DLRIC and DSAC figures for these services, but only to continue to deliver them to Ofcom on request. Stakeholders will be able to monitor BT's compliance with the applicable charge control by reference to average prices in the accounts. Stakeholders will also have access to the published Fully Allocated Cost data, which will enable them to see if prices are out of line with costs.
- 4.11 We are not proposing to make any other changes to the cost accounting information that BT is required to produce and publish pursuant to the cost accounting obligations as a result of the LLU/WLR charge control review. In particular, BT would therefore continue to be required to deliver to Ofcom, as well as to publish, FAC figures for these services and also to publish the calculation of FAC based on component costs. We consider that publication of this information is appropriate in markets where there is a risk of pricing distortions or undue discrimination. Such transparency, in particular, enables CPs to:
- assess the accuracy of product/service level data. In some ways, CPs are in a better position to do this than the regulator as they are involved in the business of buying and using the products/services concerned.
 - monitor the effectiveness of charge controls, in particular to monitor actual costs against those forecast for the purpose of setting charge controls.
 - monitor BT's compliance with other SMP obligations, including the no undue discrimination obligations.
- 4.12 We note that we are currently reviewing BT's regulatory financial reporting obligations as part of our cost orientation and regulatory financial reporting project.

We published a consultation²² last year on regulatory financial reporting obligations setting out initial proposals. We also plan a publication on cost orientation obligations later this year.

Legal Tests

- 4.13 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4, 4A and 49(2) of the Communications Act to implement these below.

Section 3, 4 and 4A

- 4.14 As part of the relevant EU market review process Ofcom has imposed wholesale cost accounting and accounting separation obligations (through conditions and directions) on BT in the Wholesale Local Access (WLA) and Wholesale Fixed Analogue Exchange Line (WFAEL) markets as part of the appropriate remedies to its SMP in these markets²³. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3, 4 and 4A of the Act. As a result of the LLU/WLR charge control review, published in March 2012, the cost orientation obligation was removed for BT in respect of certain services (namely MPF rental, MPF cease, SMPF cease, Analogue core WLR rental, WLR transfer and Enhanced service level care services). As noted above, Ofcom therefore considers that while it is appropriate to require BT to produce DLRIC and DSAC figure for these services, it should not be required to publish them, as the primary purpose for publication of these figures has fallen away. As noted above, in this case, compliance with charge controls is monitored by reference to prices. In this case therefore Ofcom believes the proposed changes appropriately reflect the outcome of the market reviews and charge control review referred to above and so meet the tests in Sections 3 and 4.

Section 49(2) tests

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

- 4.15 Ofcom considers that modifying Direction 4 in the manner described in paragraph 4.4 to 4.12 is objectively justifiable. The form and content of the market level profit and loss statements should be no more complex than necessary. Wherever possible, they should be simplified, provided they still fulfil the purpose of demonstrating BT's compliance with its obligations. The proposed changes achieve that. The RFS will still be useful and effective as a means of demonstrating BT's compliance with its charge controls in the year, and Ofcom will still be able to access DLRIC and DSAC data for the relevant services on request.

Not unduly discriminatory against particular persons or against a particular description of services

- 4.16 Ofcom considers that modifying BT's regulatory reporting requirements in the manner described above is not unduly discriminatory. KCOM, the only other communications

²² Regulatory Financial Reporting: a review, published 6 September 2012

http://stakeholders.ofcom.org.uk/consultations/regulatory-financial-reporting/?utm_source=updates&utm_medium=email&utm_campaign=reg-financial-reporting

²³ See 2010 WLA market review <http://stakeholders.ofcom.org.uk/consultations/wla/statement> and 2010 WFAEL market review <http://stakeholders.ofcom.org.uk/consultations/review-wholesale-fixed-exchange/statement>

provider with similar obligations, is not affected insofar as regulatory reporting is concerned, by the changes proposed by the March 2012 LLU/WLR charge control review.

Proportionate to what it is intended to achieve

- 4.17 Ofcom considers that modifying Direction 4 and the Former FA10 Form and content Direction under SMP condition OA2 in the manner described in paragraph 4.4 to 4.12 and Annex A is proportionate. The changes to the form and content of the market level profit and loss statements simplify it, so that BT's obligations do not extend beyond those necessary to demonstrate compliance with its obligations. The changes to the charge control statement would ensure that the extent and nature of BT's obligations reflect what is required for it to show compliance with its charge control obligations. It is proportionate as it is necessary as a mechanism to allow Ofcom and third parties to monitor for discriminatory behaviour by BT, whilst not being more intrusive than necessary with respect to their business to achieve its purpose effectively..
- 4.18 The changes would ensure that BT's obligations require no more of it than is necessary for it to show compliance with its accounting obligations, and do not extend beyond these. The changes are necessary to ensure the RFS remains fit for purpose and adequately reflect the outcomes of the LLU/WLR charge control review.

Transparent in relation to what it is intended to achieve

- 4.19 Ofcom considers that modifying Direction 4 in the manner described above is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material.

Section 49A

- 4.20 Section 49A(1)(a) does not apply because Ofcom is not proposing to modify Direction 4 for the purposes of an SMP apparatus condition. Section 49A(1)(b) does not apply because, on the basis of the analysis and impact assessment set out in this consultation, in Ofcom's view this proposal would not have a significant impact on a market for any of the services, facilities, apparatus or directories in relation to which we have functions under Chapter 1 of Part 2 of the Act.
- 4.21 In particular, we consider that while the underlying decision in the LLU/WLR charge control review to remove cost orientation for certain services was a decision which required consultation as it had a significant impact on the relevant market, the proposal in this review is simply a consequence of that decision and does not by itself have a significant impact.

Section 49B

- 4.22 Section 49B does not apply because this proposal is not of EU significance, as defined under section 150A(2), in particular because in our opinion, given the nature and limited extent of the proposal on which we are consulting and the analysis and impact assessment set out in this consultation, this proposal would not affect trade between Member States.

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

Annex 1

Responding to this consultation

How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 6 March 2013**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <https://stakeholders.ofcom.org.uk/consultations/bt-kcom-reporting-2012-13/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email david.brown@ofcom.org.uk attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- David Brown
Floor 4
Competition Finance
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- Fax: 020 7783 4103
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 4. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

Further information

- A1.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact David Brown on 020 7981 3718.

Confidentiality

- A1.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your

response should be kept confidential, can you please specify what part or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A1.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/account/disclaimer/>

Next steps

- A1.11 Following the end of the consultation period, Ofcom intends to publish a statement as soon as practicable.
- A1.12 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: http://www.ofcom.org.uk/static/subscribe/select_list.htm

Ofcom's consultation processes

- A1.13 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 2.
- A1.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Vicki Nash, Director Scotland, who is Ofcom's consultation champion:

Vicki Nash
Ofcom
Sutherland House
149 St. Vincent Street
Glasgow G2 5NW

Tel: 0141 229 7401
Fax: 0141 229 7433

Email vicki.nash@ofcom.org.uk

Annex 2

Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why.

After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

Annex 3

Consultation response cover sheet

- A3.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, www.ofcom.org.uk.
- A3.2 We have produced a coversheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at www.ofcom.org.uk/consult/.
- A3.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing

☐

Name/contact details/job title

☐

Whole response

☐

Organisation

☐

Part of the response

☐

If there is no separate annex, which parts?

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

☐

Name

Signed (if hard copy)

Annex 4

Consultation questions

A4.1 Questions requiring responses by 5pm on 6 March 2013.

Question 1: Do you agree with Ofcom's proposed amalgamation of certain low revenue disclosed services in the AISBO, WBA, Call Origination, Call Termination and Point of Handover markets?

Question 2: Do you agree with Ofcom's proposal for separate disclosure of EAD Local Access and Wholesale Broadband Connect services?

Question 3: Do you agree with the proposed changes to the presentation of the RFS?

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

Annex 5

Glossary

21CN: BT's next generation network upgrade.

ADSL (Asymmetric Digital Subscriber Line): a digital technology that allows the local loop to send a large quantity of data in one direction and a lesser quantity in the other.

Alternative interface symmetric broadband origination (AISBO)

A form of symmetric broadband origination service providing symmetric capacity between two sites, generally using an Ethernet IEEE 802.3 interface.

Backhaul: Connection from the first access node (for example the local exchange or street cabinet) to the core network.

Backhaul Ethernet Services (BES)

A wholesale Ethernet service which provides high speed, point-to-point data circuits. Each one provides a secure link from a customer's premises, to a Communications Provider's Digital Subscriber Line Access Multiplexer and the Communications Provider's site.

Ethernet Access Direct (EAD)

A wholesale Ethernet product which offers permanently connected, point-to-point high speed data circuits that provide a secure and un-contended access service for Communications Providers. EAD is a next generation network compatible service designed to complement Openreach's Ethernet Backhaul Direct (EBD) and Bulk Transport Link (BTL) products already offered within the Connectivity Services portfolio.

Ethernet Backhaul Direct (EBD)

A wholesale Ethernet product which offers permanently connected, point-to-point high speed data circuits that provide a secure and un-contended backhaul service for Communications Providers.

Fully allocated cost (FAC)

An accounting approach under which all the costs of the company are distributed between its various products and services. The fully allocated cost of a product or service may therefore include some common costs that are not directly attributable to the service.

Long Run Incremental Cost (LRIC)

The cost caused by the provision of a defined increment of output given that costs can, if necessary, be varied and that some level of output is already produced.

Point of Handover (POH)

A point where one communications provider interconnects with another communications provider for the purposes of connecting their networks to 3rd party customers in order to provide services to those end customers.

Wholesale Extension Service (WES)

A BT wholesale Ethernet product that can be used to link a customer premise to a node in a communications network.

Distributed long run incremental cost (DLRIC): The LRIC of the individual service with a share of costs which are common to other services over BT's core network.

Distributed stand alone cost (DSAC): An accounting approach estimated by adding to the DLRIC a proportionate share of the inter-increment common costs. Rather than all common costs shared by a service being allocated to the service under consideration, the common costs are instead allocated amongst all the services that share the network increment.

Local loop unbundling (LLU): A process by which a dominant provider's local loops are physically disconnected, or partially disconnected, from its network and connected to competing provider's networks. This enables operators other than the incumbent to use the local loop to provide services directly to customers.

Metallic path facilities (MPF): The provision of access to the copper wires from the customer premises to a BT MDF that covers the full available frequency range, including both narrowband and broadband channels, allowing a competing provider to provide the customer with both voice and/or data services over such copper wires.

MPF Cease and SMPF Cease: charges for record keeping services which may be incurred when a CP terminates an LLU service.

Wholesale Line Rental (WLR): The service offered by BT to other UK communications providers to enable them to offer retail line rental services in competition with BT's own retail services. Line rental is offered along with calls (and other service elements, such as broadband) to retail customers.

Shared metallic path facility (SMPF)/shared access: the provision of access to the copper wires from the customer's premises to a BT MDF that allows a competing provider to provide the customer with broadband services, while the dominant provider continues to provide the customer with conventional narrowband communications.

Wholesale Broadband Connect (WBC): BT's WBA 21CN product using Ethernet backhaul and ADSL2+ technology.

Annex A

The form and content of the Regulatory Financial Statements set out in Direction 4 shall be amended as shown below in that the words underlined are inserted, the words struck through are deleted and the services highlighted shall be amalgamated as indicated.

Annex 11

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Wholesale analogue exchange line services

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adjs. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
2013													
2012													

Detailed service analysis

	Non-discrimination				Cost orientation			
	Revenue £m	Volume	Unit (b)	Average price £	FAC (see App 1.2) £	Unaudited (D)LRIC £	Unaudited DSAC £	Average price/FAC
For the year ended 31 March 2013								
Service								
Wholesale basic analogue internal service rentals	x		x x	x	x	x	x	x
Wholesale basic analogue external service rentals	x		x x	x	x	x	x	x
Wholesale premium analogue internal service rentals	x		x x	x	x	x	x	x
Wholesale premium analogue external service rentals	x		x x	x	x	x	x	x
Wholesale basic analogue internal service connections								
Wholesale premium analogue internal service connections								
Wholesale premium and basic analogue internal service connections	x		x x	x	x	x	x	x
Wholesale premium and basic analogue external service connections	x		x x	x	x	x	x	x
Wholesale premium and basic analogue internal service transfers	x		x x	x	x	x	x	x
Wholesale premium and basic analogue external service transfers	x		x x	x	x	x	x	x
Roundings	-							
TOTAL	x							

Key:

Remove LRIC and DSAC information

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13)

Annex 11

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Alternative interface symmetric broadband origination (up to and including 1Gbit/s)

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adj. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
2013													
2012													

Detailed service analysis

	Non-discrimination				Cost orientation			
	Revenue	Volume	Unit (b)	Average price	FAC (see App 1.2)	Unaudited (D)LRIC	Unaudited DSAC	Average price/FAC
	£m			£	£	£	£	
For the year ended 31 March 2013								
Service								
Wholesale extension services 10Mbit/s rentals - Internal	x		x	x				
Wholesale extension services 10Mbit/s rentals - External	x		x	x	x	x	x	
					x	x	x	
Wholesale extension services 100Mbit/s rentals - Internal	x		x	x				
Wholesale extension services 100Mbit/s rentals - External	x		x	x	x	x	x	
					x	x	x	
Wholesale extension services 1000Mbit/s rentals - Internal	x		x	x				
Wholesale extension services 1000Mbit/s rentals - External	x		x	x	x	x	x	
					x	x	x	
Wholesale extension services other bandwidth rentals - Internal	x		x	x				
Wholesale extension services other bandwidth rentals - External	x		x	x	x	x	x	
					x	x	x	
Wholesale extension services connections - Internal								
Wholesale extension services connections - External								
Backhaul extension services 1000Mbit/s rentals - external	x		x	x	x	x	x	
Backhaul extension services other bandwidth rentals - external	x		x	x	x	x	x	
Backhaul extension services other bandwidth connections - external								
Other internal Ethernet rentals	x		x	x	x	x	x	
Other internal Ethernet connections	x		x	x	x	x	x	
Other external Ethernet rental	x		x	x	x	x	x	
Other external Ethernet connection	x		x	x	x	x	x	

Ethernet Access Direct Local Access 10Mbit/s rental - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 10Mbit/s rental - External	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 100Mbit/s rental - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 100Mbit/s rental - External	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 1000Mbit/s rental - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 1000Mbit/s rental - External	x	x	x	x	x	x	x
Ethernet Access Direct Other 10Mbit/s rental - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Other 10Mbit/s rental - External	x	x	x	x	x	x	x
Ethernet Access Direct Other 100Mbit/s rental - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Other 100Mbit/s rental - External	x	x	x	x	x	x	x
Ethernet Access Direct Other 1000Mbit/s rental - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Other 1000Mbit/s rental - External	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 10Mbit/s connection - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 10Mbit/s connection - External	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 100Mbit/s connection - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 100Mbit/s connection - External	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 1000Mbit/s connection - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Local Access 1000Mbit/s connection - External	x	x	x	x	x	x	x
Ethernet Access Direct Other 10Mbit/s connection - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Other 10Mbit/s connection - External	x	x	x	x	x	x	x
Ethernet Access Direct Other 100Mbit/s connection - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Other 100Mbit/s connection - External	x	x	x	x	x	x	x
Ethernet Access Direct Other 1000Mbit/s connection - Internal	x	x	x	x	x	x	x
Ethernet Access Direct Other 1000Mbit/s connection - External	x	x	x	x	x	x	x
Ethernet Access Direct 10Mbit/s rental - Internal							
Ethernet Access Direct 10Mbit/s rental - External							

BT and KCOM's regulatory financial reporting

Ethernet Access Direct 100Mbit/s rental - Internal								
Ethernet Access Direct 100Mbit/s rental - External								
Ethernet Access Direct 1000Mbit/s rental - Internal								
Ethernet Access Direct 1000Mbit/s rental - External								
Ethernet Access Direct 10Mbit/s connection - Internal								
Ethernet Access Direct 10Mbit/s connection - External								
Ethernet Access Direct 100Mbit/s connection - Internal								
Ethernet Access Direct 100Mbit/s connection - External								
Ethernet Access Direct 1000Mbit/s connection - Internal								
Ethernet Access Direct 1000Mbit/s connection - External								
Ethernet Backhaul Direct rentals - external	x	x	x	x	x	x	x	x
Ethernet Backhaul Direct connections - external	x	x	x	x	x	x	x	x
Main link rental charges - Internal	x	x	x	x	x	x	x	x
Main link rental charges - External	x	x	x	x	x	x	x	x
Support Service								
Equipment depreciation	x					x		
Excess construction charges - Internal	x	x		x		x		
Excess construction charges - External	x	x		x		x		
Roundings	x							
TOTAL	<u>x</u>							
Key:								
Consolidate Internal WES Connections service into the existing Other Internal Ethernet Connections service.								
Consolidate External Ethernet Connections services into the existing Other External Ethernet Connections service.								
Split Ethernet Access Direct (EAD) into EAD Local Access rentals and connections and 'Other' rentals and connections by bandwidth.								
Remove current Ethernet Access Direct services and split into EAD Local Access and EAD Other services by bandwidth.								
Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13)								

Annex 11

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Wholesale local access

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adjs. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
2013													
2012													

Detailed service analysis

	Non-discrimination				Cost orientation			
	Revenue £m	Volume	Unit (b)	Average price £	FAC (see App 1.2) £	Unaudited (D)LRIC £	Unaudited DSAC £	Average price/FAC
For the year ended 31 March 2013								
Service								
MPF New Provides	x		x	x	x	x	x	
MPF Single Migrations	x		x	x	x	x	x	
MPF Bulk Migrations	x		x	x	x	x	x	
MPF Ceases	x		x	x	x	x	x	
MPF Rentals	x		x	x	x	x	x	
Co-mingling New Provides	x		x	x	x	x	x	
Co-mingling Rentals	x		x	x	x	x	x	
Tie Cables	x		x	x	x	x	x	
SMPF New Provides	x		x	x	x	x	x	
SMPF Single Migrations	x		x	x	x	x	x	
SMPF Bulk Migrations	x		x	x	x	x	x	
SMPF Ceases	x		x	x	x	x	x	
SMPF Rentals	x		x	x	x	x	x	
Roundings	x							
TOTAL	759							

Key:

Remove LRIC and DSAC information

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

Annex 13

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Call origination on fixed public narrowband networks

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adj. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
--	---------------------------	---------------------------	---------------	--------------------------	--------------------	------------------------------	---------------------	---------------------	-----------------	---------------------------------------	--------------	-----------	---------------------

2013
2012

Detailed service analysis

Non- discrimination															Cost orientation			
															FAC (see App 1.2)	Unaudited (D)LRIC	Unaudited DSAC	Average price/FAC

Key:

Consolidate the internal Wholesale call origination local exchange Stick services for PSTN & ISDN into one service.

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

Annex 13

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Fixed call termination

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adj. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
2013													
2012													

Detailed service analysis

	Non- discrimination										Cost orientation				
	NCC traffic - millions of minutes (mm)					Average NCC rates - pence per minute (ppm)				Weighted Average ppm	FAC (see App 1.2)	Unaudited (D)LRIC	Unaudited DSAC	Average price/FAC	
	Revenue £m	Day	Evening	Weekend	24 hours	Day ppm	Evening ppm	Weekend ppm			ppm	ppm	ppm	ppm	
For the year ended 31 March 2013															
Service															
Internal Wholesale call termination local exchange segment	x	x	x	x	x	x	x	x	x		x	x	x	x	
External Wholesale call termination local exchange segment	x	x	x	x	x	x	x	x	x	x	x	x	x		
Internal Wholesale call termination local exchange segment (ISDN)	x	x	x	x	x	x	x	x	x	x	x	x	x		
Internal Wholesale call termination local exchange stick															
Internal Wholesale call termination local exchange stick (ISDN)															
Internal Wholesale call termination local exchange stick (PSTN & ISDN)	x	x	x	x	x	x	x	x	x	x	x	x	x		
Roundings	x														
	x														

Key:

Consolidate the internal Wholesale call termination local exchange Stick services for PSTN & ISDN into one service.

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

Annex 11

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Technical Areas (Point of Handover)

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adj. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
2013													
2012													

Detailed service analysis

	Non-discrimination				Cost orientation			
	Revenue £m	Volume	Unit (b)	Average price £	FAC (see App 1.2) £	Unaudited (D)LRIC £	Unaudited DSAC £	Average price/FAC
For the year ended 31 March 2013								
Service								
External Customer Sited Handover connections	x	x	x	x	x	x	x	
External Customer Sited Handover rentals	x	x	x	x	x	x	x	
External In Span Handover connections	x	x	x	x	x	x	x	
External In Span Handover rentals	x	x	x	x	x	x	x	
External 3rd Party POH Rentals - equipment	x	x	x	x	x	x	x	
External 3rd Party POH Rental 64kbit/s - circuit	x	x	x	x	x	x	x	
External 3rd Party POH Rental 2Mbit/s non CLZ - circuit	x	x	x	x	x	x	x	
External 3rd Party POH Rental 2Mbit/s other - circuit	x	x	x	x	x	x	x	
External 3rd Party POH Rental 64kbit/s								
External 3rd Party POH Rental 2Mbit/s non CLZ								
External 3rd Party POH Rental 2Mbit/s CLZ								
External 3rd Party POH Rental 34/45Mbit/s								
External 3rd Party POH Rental 155Mbit/s								
Roundings		x						
TOTAL		x						

Key:

Create a POH Rentals - equipment service. Single service unrelated to bandwidth.

Create POH Rentals - circuits services by bandwidth (only material services shown).

Delete existing POH Rentals services.

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

Annex 11

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Wholesale broadband access market 1

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adjs. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m
2013												
2012												

Detailed service analysis

	Non-discrimination				Cost orientation			
	Revenue £m	Volume	Unit (b)	Average price £	FAC (see App 1.2) £	Unaudited (D)LRIC £	Unaudited DSAC £	Average price/FAC
For the year ended 31 March 2013								
Service								
Internal End user access connections Mkt 1								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External end user access connections Mkt 1								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External Datastream End user access Rentals Mkt 1								
EOI								
WBA Input								
Internal IPstream Connect End user access Rentals Mkt 1								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External IPstream Connect End user access Rentals Mkt 1								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External Datastream Virtual Paths Mkt 1								
EOI								
WBA Input								
Internal IPstream Connect Bandwidth Mkt 1								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External IPstream Connect Bandwidth Mkt 1								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	

Key:

Consolidate Internal and External Datastream services into Ancillary Charges.

Create new WBC services previously included in Ancillary Charges.

Ancillary Charge services to include Datastream services but exclude WBC services.

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

BT and KCOM's regulatory financial reporting

Internal WBC End User Access Rentals Mkt1						
EOI					x	x
WBA Input					x	x
	x	x	x	x	x	x
External WBC End User Access Rentals Mkt1						
EOI					x	x
WBA Input					x	x
	x	x	x	x	x	x
Internal WBC Bandwidth Mkt1						
EOI					x	x
WBA Input					x	x
	x	x	x	x	x	x
External WBC Bandwidth Mkt1						
EOI					x	x
WBA Input					x	x
	x	x	x	x	x	x
Internal Ancillary Charges and Other Mkt 1 (inc Datastream)						
EOI	x	x	x	x	x	x
WBA	x	x	x	x	x	x
External Ancillary Charges and Other Mkt 1 (inc Datastream)						
EOI	x	x	x	x	x	x
WBA	x	x	x	x	x	x
Roundings				1		
TOTAL				415		

Key:

Consolidate Internal and External Datastream services into Ancillary Charges.

Create new WBC services previously included in Ancillary Charges.

Ancillary Charge services to include Datastream services but exclude WBC services.

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

Annex 11

Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

Wholesale broadband access market 2

Summary

	Internal Revenue £m	External Revenue £m	Revenue £m	Operating costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other adjs. £m	Roundings £m	Total CCA operating costs £m	Return £m	MCE £m	Return on MCE
2013													
2012													

Detailed service analysis

	Non-discrimination			Cost orientation				
	Revenue	Volume	Unit (b)	Average price	FAC (see App 1.2)	Unaudited (D)LRIC	Unaudited DSAC	Average price/EAC
	£m			£	£	£	£	
For the year ended 31 March 2013								
Service								
Internal End user access connections Mkt 2								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External end user access connections Mkt 2								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External Datastream End user access Rentals Mkt 2								
EOI								
WBA Input								
Internal IPstream Connect End user access Rentals Mkt 2								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External IPstream Connect End user access Rentals Mkt 2								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External Datastream Virtual Paths Mkt 2								
EOI								
WBA Input								
Internal IPstream Connect Bandwidth Mkt 2								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	
External IPstream Connect Bandwidth Mkt 2								
EOI					x	x	x	
WBA Input					x	x	x	
	x		x x	x	x	x	x	

Key:

Consolidate Internal and External Datastream services into Ancillary Charges.

Create new WBC services previously included in Ancillary Charges.

Ancillary Charge services to include Datastream services but exclude WBC services.

Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).

BT and KCOM's regulatory financial reporting

Internal WBC End User Access Rentals Mkt2						
EOI				x	x	x
WBA Input				x	x	x
	x	x x	x	x	x	x
External WBC End User Access Rentals Mkt2						
EOI				x	x	x
WBA Input				x	x	x
	x	x x	x	x	x	x
Internal WBC Bandwidth Mkt2						
EOI				x	x	x
WBA Input				x	x	x
	x	x x	x	x	x	x
External WBC Bandwidth Mkt2						
EOI				x	x	x
WBA Input				x	x	x
	x	x x	x	x	x	x
Internal Ancillary Charges and Other Mkt 2						
EOI	x	x	x	x	x	x
WBA	x	x	x	x	x	x
External Ancillary Charges and Other Mkt 2						
EOI	x	x	x	x	x	x
WBA	x	x	x	x	x	x
Roundings	x					
TOTAL	x					
Key:						
Consolidate Internal and External Datastream services into Ancillary Charges.						
Create new WBC services previously included in Ancillary Charges.						
Ancillary Charge services to include Datastream services but exclude WBC services.						
Remove Average Price/FAC column from all Market Summaries (i.e. Annexes 11/12/13).						