



Changes to BT and KCOM's regulatory and financial reporting 2010/11 update

Consultation

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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 Our proposed main changes to BT's 2010/11 RFS reflect our recent market review decisions, in particular:
 - i) In our recent Wholesale Broadband Access Market review (the "WBA" market review)¹, we found that BT has SMP in markets 1 and 2. As a consequence of this market review we are imposing cost accounting and accounting separation obligations in these markets.²
 - ii) In the Fixed Narrowband Wholesale Services Market review³, we found that BT no longer has SMP in the market for Local Tandem Conveyance and Transit and as a result accounting separation and cost accounting obligations are removed from the year end 31 March 2011.
 - iii) In the Fixed Narrowband Wholesale Services Market review, Further statement on wholesale transit markets and remedies in the wholesale call termination market (the "Fixed Narrowband Further Statement")⁴, SMP conditions were amended in the Single Transit market and as a result cost accounting obligations are removed from the year end 31 March 2011, although accounting separation obligations remain.
- 1.4 Following work performed in relation to the Number Translation Service ("NTS") Retail Charge Control and Premium Rate Service ("PRS") Bad Debt Surcharge Consultation⁵ we have identified that there is insufficient transparency and reporting of these services in the call origination market. We therefore propose to introduce reporting of these services as part of BT's RFS.
- 1.5 Other changes which require consultation are mainly concerned with improving the presentation of the statements including, for example, the aggregation of services in

¹ The review of Wholesale Broadband Access Markets, published in December 2010:

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

² This consultation is about the proposed legal instrument which will implement relevant SMP conditions and the detail of those accounting obligations.

³ The review of the fixed narrowband services wholesale markets Statement, published September 2009:

http://stakeholders.ofcom.org.uk/consultations/wnmr_statement_consultation/summary

⁴ The Fixed Narrowband Further Statement, published February 2010:

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

⁵ The NTS and PRS Bad Debt Surcharge Consultation, published in February 2011:

<http://stakeholders.ofcom.org.uk/consultations/nts-retail-uplift/>

the Alternative Interface Symmetric Broadband Origination ("AISBO") market, and amending the charge control statement to focus on BT's compliance data.

1.6 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.

1.7 The tables below summarise the issues and objectives we address in this consultation and outline our proposals in each⁶.

A) ITEMS FOR CONSULTATION (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. | We propose to amalgamate certain low revenue services within this market. |
| 2) Improved disclosure of NTS Retail and PRS Bad Debt Services in the Call Origination Market | |
| During the year our work has identified that there is insufficient transparency in the reporting of services in this market. | We propose that BT provides Additional Financial Information ("AFI") which discloses all material services in the market. BT will also provide a description of the basis of preparation of this AFI. |
| 3) Changes to the presentation of the RFS | |
| BT proposed several changes to the RFS which change the form and content of the RFS. This includes a significant change to the summary of the price control statement. | We believe BT's proposals would improve the presentation of the information and therefore propose to consult on these changes. |

B) OUTCOMES FROM MARKET REVIEWS (Section 4)

| <i>Issue/Objective</i> | <i>Proposal</i> |
|--|---|
| 1) Implementation of Wholesale Broadband Access Market Review | |
| The market review concluded BT has SMP in Markets 1 and 2 and decided on the imposition of cost accounting and accounting separation obligations in these markets. | We propose to implement the outcome of the market review by making relevant SMP conditions and directing BT to report each market separately and disclose service level information consistent with other markets with cost accounting and accounting separation obligations. |
| 2) Implementation of Fixed Narrowband Wholesale Services Market Review | |
| i) The fixed narrowband services wholesale markets statement, published in September 2009 found BT no longer had SMP in the Local Tandem Conveyance and Transit market and revoked SMP conditions in this market. | i) We propose to implement the outcome of the market review by removing accounting separation and cost accounting obligations in the Local Tandem Conveyance and Transit market. |
| ii) The Fixed Narrowband Further Statement, published in February 2010 revoked the cost orientation SMP condition that had previously been imposed on BT in the Single Transit Market and re-imposed the accounting separation obligation. | ii) We propose to implement the outcome of the market review by removing cost accounting obligations in the Single Transit market. Accounting separation obligations, however, will remain. |

⁶ Though see section 4 for proposed formal changes to KCOM's SMP conditions arising out of the WBA market review.

- 1.8 The closing date for responses to the consultation as set out in this document is 5pm on 31 March 2011.

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 2010/11 RFS.
- 2.7 In Section 4 we set out proposed changes required to the RFS as a result of the conclusions of the Wholesale Broadband Access and Fixed Narrowband Wholesale market reviews which we would also expect to apply to the preparation and publication of BT's 2010/11 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 KCOM⁷.

⁷ Though see section 4 in relation to the WBA market review.

Costs and benefits of proposed changes

- 2.9 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.
- 2.10 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 Annex 5 of this document, together with that in Sections 1 to 5 and Annex 6, are an impact assessment relating to our proposals.
- 2.11 We will work closely with BT to ensure the implementation of the final requirements is carried out as efficiently as possible.
- 2.12 Responses to the consultation and the questions raised in sections 3 and 4 are due by 5pm 31 March 2011.

Section 3

Items for Consultation

Introduction

- 3.1 In this section we propose three reporting changes which require formal consultation. These changes relate to BT only.

Disclosure of AISBO Services

Proposed Change

- 3.2 We propose to amalgamate some of the services reported separately in 2009/10 with low revenues and costs within this market.

Objective of Change

- 3.3 In our 2010 Statement on Changes to BT and KCOM's regulatory and financial reporting⁸ (2010 RFS Statement) we identified that the AISBO market was growing significantly and where 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) 2, 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 2009/10 the market has not seen the same level of growth in revenues compared to prior years, although volumes have risen by around 17%. We have used this 2009/10 data as an indicator for services to be disclosed by BT in 2010/11.
- 3.7 BT has brought it to our attention that in 2009/10 the revenues of some services were small. For example the combined sales of the three external BES connection services for the 100Mbps, 1000 Mbps and Other bandwidth services were less than £5m.
- 3.8 In 2010/11 we propose to amalgamate the reporting of some of these low revenue services. 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. This will ensure that the presentation of this market is consistent with our approach to reporting in other markets.
- 3.9 The proforma statement showing the services we propose to amalgamate in the regulatory financial statements is in Annex 10 of this document. Services which we

⁸ 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/>

propose shall have other services amalgamated into them are highlighted in pink, and those which we propose to be amalgamated into other services are highlighted in green.

- 3.10 Although we have used 2009/10 information as a reasonable indicator for determining reported services in 2010/11, our proposed list of services can be expanded by BT in light of actual outturn data for 2010/11.

Legal Tests

- 3.11 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 and 49(2) of the Act to implement these changes at Annex 6.

Question 1: Do you agree Ofcom's proposed amalgamation of certain low revenue disclosed services in the AISBO market?

NTS Retail and PRS Bad Debt Surcharge Reporting

Proposed Change

- 3.12 We propose that BT prepares and publishes Additional Financial Information ("AFI"), additional to the main RFS document, that will report on the services controlled by the NTS Retail Uplift charge and PRS Bad Debt Surcharge.
- 3.13 The AFI will disclose all main services in the market. BT will also provide a description of the basis of preparation of information.
- 3.14 We also propose that, at Ofcom's request, the information provided in this AFI could be reviewed and reported on by the independent auditors using the "Agreed upon Procedures" process.

Objective of Change

- 3.15 During the 2010/11 reporting year we have undertaken work for the consultation on the NTS Retail Uplift and PRS Bad Debt Surcharge charge controls. These relate to services falling in the wholesale call origination market.
- 3.16 Ofcom has previously determined that BT has SMP in the call origination market and made SMP conditions requiring BT to supply services in that market on a cost-orientated and non-discriminatory basis. We have also proposed the principle of a charge control in the Fixed Narrowband Wholesale Services Market Review Statement (published September 2009).
- 3.17 During our work in 2010/11 we have identified that there is significant inconsistency between the way BT accounts for the costs of these services and the way in which we view these costs for regulatory purposes. In addition, there were errors in parts of the information provided to us by BT. These matters adversely affected our work on developing a revised charge control proposal.
- 3.18 As far as BT's current SMP obligations and the RFS are concerned, we have also noted that these wholesale services are currently not reported in the RFS. The current requirements of the RFS, as set out in the relevant Directions, do not explicitly require BT to provide service level information relating to the NTS Retail

Uplift and PRS Bad Debt Surcharge. As a result, we are not able fully to ascertain whether BT is complying with its cost orientation and non-discrimination obligations.

- 3.19 We have published an earlier consultation, in July 2009, on the NTS Retail Uplift and PRS Bad Debt Surcharge⁹ (the “2009 NTS/PRS consultation”). In it we noted the absence of reporting of these services and proposed that BT should be required to provide us with an AFI schedule setting out a certain level of reporting information.
- 3.20 That July 2009 AFI schedule would not, however, have directly identified the revenues, costs and volumes for the NTS Retail Uplift and PRS Bad Debt Surcharge services. Our 2009 proposal was not taken forward but has helped inform our thinking as proposed in this document.
- 3.21 In light of these matters, we again consider it appropriate that BT should provide service-level reporting information on the services within the scope of the NTS Retail Uplift and the PRS Bad Debt Surcharge charge control consultation. In practice, this would mean that BT would report each year the unit costs and revenues as well as the associated total revenues and volumes (so long as the relevant SMP conditions apply).
- 3.22 We have therefore discussed with BT that it should report the following services in the RFS for 2010/11:
- Chargeable NTS Retail Uplift (internal and external)
 - Freephone NTS Retail Uplift (internal and external)
 - PRS Bad Debt Surcharge (internal and external)
- 3.23 In response, BT has explained that it believes such reporting obligations would be disproportionate because of the relatively small size of revenues in the market and the amount of work required to produce the reporting information. BT has also explained that full reporting of these services in the RFS would involve a considerable extension of the internal and external audit work that would be required.
- 3.24 BT anticipates that the individual turnover for two of the three services would be below the £10m guidance reporting threshold. Individual turnover levels for these services were below this £10m threshold in 2008/09 and have continued to decline.
- 3.25 We have taken account of BT's view and recognise the concerns in relation to the size of the market and reporting issues. We also acknowledge that, given the atypical ‘retail’ nature of the cost base of the relevant services, it will not be practicable for BT to prepare incremental and standalone cost information in the normal way.
- 3.26 We do, however, believe that some form of reporting is important and necessary, to enable us to assess BT's compliance with its obligations in the relevant market. Service-level unit cost and revenue information, for example, helps demonstrate whether BT is complying with its cost-orientation obligation. And, notwithstanding its comments above, BT is able to prepare relevant cost information on a fully attributed cost (FAC) basis which is broadly equivalent to LRIC plus a mark-up to allow for common cost recovery.

⁹ The “Wholesale charges for Number Translation Services and Premium Rate Services, NTS Retail Uplift charge control and PRS Bad Debt Surcharge” consultation, published July 2009:
<http://stakeholders.ofcom.org.uk/consultations/nts/>

- 3.27 We therefore now propose that BT prepares an AFI schedule to be disclosed publicly. The schedule would contain information focusing on the wholesale services provided by BT on behalf of the terminating operator, rather than the provision of retail NTS calls to consumers as proposed in the 2009 NTS/PRS consultation. It would detail revenues, costs and volumes prepared on a basis consistent with base year information used by Ofcom to develop the NTS charge control proposals.
- 3.28 For the avoidance of doubt, in the case of the NTS Retail Uplift these costs, revenues and volumes would need to be prepared on a basis consistent with our treatment of base year costs. For example, they would relate to all NTS traffic BT retails, both that terminating on its own network and on other CPs' networks and, if our proposals were adopted, they would:
- Report separately for the chargeable and freephone NTS Retail Uplifts
 - Attribute generic sales and marketing costs on the basis of net revenue
 - Attribute an appropriate proportion of support costs not causally attributable on the basis of net revenue
 - Include freephone call minutes in the volume of call minutes used to determine the per minute cost of NTS calls (excluding bad debt)
 - Exclude freephone call minutes from the volume of call minutes used to determine the per minute cost of bad debt for NTS calls
- 3.29 In the case of the PRS Bad Debt Surcharge we believe that BT should be able to report the cost of the Surcharge as a percentage of revenue to assess its actual level in 20010/11.
- 3.30 BT would provide a description of the basis of preparation of the information provided in the AFI schedule. This basis of preparation will be consistent with the primary accounting documents which include, for example, the regulatory accounting principles of cost causality and objectivity. We believe that the approach reflected in our treatment of base year costs in the RPI-X model on which we base our revised proposals for the NTS Retail Uplift charge control fairly reflect the principles and policies that underpin the preparation of BT's RFS.
- 3.31 Further detail of the information to be disclosed in the AFI schedule is in Annexes 9 and 10 of this document.
- 3.32 We also propose that, at Ofcom's request, information provided by BT could be reviewed and reported on by the independent auditors under the "Agreed Upon Procedures" process established between Ofcom, BT and BT's external auditor under the "Tripartite" agreement.

Legal Tests

- 3.33 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Act to implement these changes at Annex 6.

Question 2: Do you agree with Ofcom's proposal to direct BT to prepare and publish further information on the services in the Call Origination market controlled by the NTS retail uplift charge and the PRS bad debt surcharge in the form of an AFI?

Presentation Changes

Proposed Change

- 3.34 We propose to improve the presentation of BT's RFS through simplifying the form and content of the market level profit and loss statements. In particular, we propose the following changes to the form and content:
- Deletion of Internal and External Sales information (at a service level)
 - Deletion of the Roundings Column relating to Turnover (at a market summary level)
- 3.35 We also propose to improve the Price Control Statement in the RFS (Appendix 2) to enable BT to better disclose information provided to Ofcom to demonstrate compliance with price controls during the year.

Objective of Change

- 3.36 We recognise that the RFS contain large amounts of data and each year we seek to find ways to simplify the presentation.
- 3.37 This year we propose the two following changes: the deletion of "Internal and External sales" information (at a service level) and the deletion of the "Roundings" Column relating to Turnover (at market summary level).
- 3.38 In addition we propose changes to the Price Control Statement. We believe that, in its current format, the current statement in the RFS does not achieve its main objective of explaining how BT has demonstrated compliance with the its charge controls in the year.
- 3.39 We propose to significantly change the statement so that it shows a summary of charge control data submitted by BT to Ofcom in the year. It should be noted that due to the time lag in the provision of such information, these submissions may relate to controlled periods which fell in previous financial years.
- 3.40 To understand the charge controls which applied to regulated services during 2010/11 users should refer to the commentary on each market in the Regulatory Financial Review (RFR) part of the RFS.
- 3.41 Details of all presentation changes we propose are shown in Annex 10 of this document.

Legal Tests

- 3.42 In order to implement these changes Ofcom will have to modify Direction 4 and the Former FA10 Form and Content Direction under SMP condition OA2¹⁰. We have set

¹⁰ The "Former FA10 Form and Content Direction" is the Direction given under SMP services condition FA10.2 at Schedule 5 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*, as subsequently modified. It related to BT's obligations in that it set out the form and content to be applied by BT in respect of preparing certain Regulatory Financial Statements required by virtue of condition FA10.5 and the FA10 Preparation, audit and delivery Direction. By virtue of the modification of SMP services condition OA2 at Schedule 3 of Annex 2 of the *Review of the Wholesale Local Access Market, dated 7 October 2010*, this Direction continues to have force under SMP services condition OA2 as if it was given under that condition and is to be read accordingly.

out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Act to implement these changes at Annex 6.

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

Question 4: Do you agree with the proposed change to the presentation of the Charge Control Statement in the RFS?

Section 4

Outcomes of market reviews concluded in 2010

Introduction

- 4.1 There are two specific market reviews which trigger changes to BT's RFS: the Fixed Narrowband Wholesale Services Market Review, which was published in February 2010, and the WBA market review which was published in December 2010. This consultation is the device by which we implement these changes to BT's and regulatory reporting requirements.
- 4.2 There have also been other market reviews in 2010 in which Ofcom concluded that BT has significant market power in certain markets. However, these do not affect BT's RFS in 2010/11.
- 4.3 In two market reviews, "*The Wholesale Local Access Market Review*,"¹¹ and, "*The wholesale fixed analogue exchange lines market review*,"¹² the remedies imposed on BT (and KCOM) are unchanged from those previously in place as far as regulatory financial reporting is concerned. Relevant Directions previously made by Ofcom continue to apply.
- 4.4 The remedies imposed in a third, "*The ISDN30 market review*,"¹³ also do not affect BT's RFS in 2010/11. Again, relevant Directions previously made by Ofcom continue to apply.
- 4.5 Ofcom did conclude in the ISDN30 market review that new price control and cost accounting remedies should be imposed on BT (Openreach). We said, however, that the precise form and type of these remedies will be determined in a subsequent review (which will examine the efficient level of cost of wholesale ISDN30 provision as well as reviewing the options for a price control remedy). So, once more, this does not affect BT's RFS in 2010/11.
- 4.6 The tables which set out the service markets against which BT is required to prepare RFS have been amended to reflect relevant market reviews and can be found in Annex 7 of this document.
- 4.7 It should be noted that this year we are proposing no regulatory reporting changes which relate to KCOM's RFS. One outcome of the WBA market review is a formal amendment to the SMP conditions that apply to KCOM in the WBA market in the Hull area. But, the effect again is to impose the same remedies on KCOM as had previously been imposed on it and in relation to which relevant Directions previously made by Ofcom continue to apply.

¹¹ "*Review of the wholesale local access market Statement on market definition, market power determinations and remedies*," 7 October 2010, at:

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

¹² "*Review of the wholesale fixed analogue exchange lines markets, Statement on market definition, market power determinations and remedies*," 20 December 2010, at:

<http://stakeholders.ofcom.org.uk/consultations/review-wholesale-fixed-exchange/statement>

¹³ "*Review of retail and wholesale ISDN30 markets, Statement on the markets, market power determinations and remedies*," 20 August 2010, at:

<http://stakeholders.ofcom.org.uk/consultations/isdn30/statement>

Wholesale Broadband Access Market Review

Implications for BT

- 4.8 The main outcome of the WBA market review in respect of regulatory financial reporting is that BT has significant market power (SMP) in Markets 1 and 2. As a result, we decided that cost accounting and accounting separation obligations should be imposed in these markets. We are now consulting about how we do so.

Description

- 4.9 The WBA market review concluded that in Markets 1 and 2 BT has SMP. As a result, two new separate markets to be reported will be created: WBA market 1 and WBA market 2. The aggregate national WBA market data, including market 3, will no longer be reported.
- 4.10 In the WBA market review statement, OFCOM decided to impose a cost accounting and accounting separation obligation on BT, in relation to both Market 1 and Market 2. We also decided to impose accounting separation obligations on KCOM in the WBA market in the Hull area (in which market we determined that KCOM has SMP). We set out the reasons for doing so.
- 4.11 We also said we would consult further on those obligations. For example:
- 4.11.1 in paragraph 1.22 of the statement we said, "The details of these obligations will be the subject of a separate consultation;" and
- 4.11.2 in paragraph 1.33 we said:
- "In addition, we will shortly publish a consultation on BT's and KCOM's regulatory reporting obligations which will include our proposals on how BT should meet its accounting separation and cost accounting obligations in Market 1 and Market 2 and how KCOM should meet its accounting separation obligation in the Hull Area. That consultation will set out the proposed legal instrument which will implement such SMP conditions."
- 4.12 This is what we are now doing. In view of the very short time since the relevant market power determinations, Ofcom is satisfied there has been no material change since those determinations were made. The proposed legal instrument making relevant SMP conditions, in relation to both BT and KCOM, is at Annex 8 to this document. Our proposals for the relevant Directions, to BT¹⁴, in Annexes 9 and 10, will mean, that in Markets 1 and 2, BT will now report relevant market information including revenues, fully allocated costs (FAC), and incremental costs (LRIC). This will follow the form and content of other markets.
- 4.13 Although the decisions in the WBA market review were made part way through the 2010/11 financial year we propose that BT should prepare the RFS covering the whole of 2010/11. This is to ensure that there is transparency in relation to cost orientation obligations for part of 2010/11. It is also to capture properly BT's obligations going forward, taking account of the likelihood those obligations would continue for the full 2011/12 reporting year, and possibly full reporting years further in

¹⁴ As we say above, no regulatory reporting changes relating to KCOM's RFS are necessary to give effect to the formal amendment to the SMP conditions that apply to KCOM in the WBA market in the Hull area. Relevant Directions made by Ofcom already exist and continue to apply.

the future, and to provide a useful reference point for the level of charges that BT will be using in 2011/12. There will be a full attribution of relevant costs to Markets 1 and 2. The geographic aspect of cost attribution will also need to be described by BT in its supporting documentation, such as the DAM.

- 4.14 The form and content of the WBA statement will also be enhanced to include the upstream Openreach inputs on an Equivalence of Input (EOI) basis (e.g. at tariff rates). The purpose of reporting upstream services provided by Openreach is to be consistent with the charge control formula which allows these EOI services to be passed through in the relevant WBA charges. The cost orientation obligation applies to the activities carried out in the WBA market in addition to the EOI services.
- 4.15 BT has explained that the costing systems and processes used to prepare the RFS are designed to support national markets and that where markets and services are based on a geographic definition then supplementary cost analysis and models may be required. For these two WBA markets BT has indicated that the preparation of FAC and LRIC service cost data may be carried out using offline analysis. Where this is the case BT will indicate in a note to the RFS that further costing analysis has been carried out and cross refer to supporting documentation that will explain how this has been done. Ofcom would regard this as acceptable provided BT meets its obligations created by the relevant SMP conditions and the relevant Directions.
- 4.16 BT has also made representations to us about, and we see merit in, the WBA market profit & loss information being presented on an EOI basis rather than in the format already published for other regulated markets. In the RFS we are therefore proposing the less onerous implementation of an EOI approach at the service level and to show the market view in the same format as published for other regulated markets. We nonetheless note that presentation of market level financial information on an EOI basis would be new and raises questions about how the EOI adjustment has been calculated and how the regulatory accounts in total can be reconciled with BT's Annual Report. We therefore particularly welcome BT's and stakeholder's comments on this proposal as part of the consultation.

Legal Tests

- 4.17 In order to implement these changes Ofcom will have to:
- 4.16.1 make relevant SMP conditions by modifying the Notification to BT dated 22 July 2004 setting SMP services conditions on BT in relation to regulatory accounting in various markets (as modified), and the Notification to KCOM dated 22 July 2004 setting SMP services conditions on KCOM in relation to regulatory accounting in various markets (as modified) (see Annex 8); and
 - 4.16.2 modify Directions 3 and 4 under SMP condition OA2 (see Annexes 9 and 10).
- 4.18 We have set out in the WBA statement how the SMP conditions meet the requirements of sections 45 to 50 and sections 78 to 92 of the Act, as appropriate and relevant to each such condition (see, in particular, paragraphs 5.252 – 5.261, 5.275 – 5.287 and 5.315 – 5.324 of the WBA statement). We have summarised at Annex 6 of this document how we have satisfied the legal tests under sections 3, 4 and 47(2) of the Act in relation to the SMP conditions and sections 3, 4 and 49(2) in relation to the Directions. What we say about the SMP conditions and the section 3, 4 and 47(2) legal tests should be read with what we say in paragraphs 5.254 – 5.259,

5.279 – 5.285 and 5.316 – 5.322 of the WBA statement, in particular, and in light of that statement as a whole.

Review of Local Tandem Conveyance and Single Transit on fixed public narrowband networks

Implications for BT

- 4.19 The main outcomes in respect of regulatory financial reporting from the Fixed Narrowband Wholesale Services market review and Fixed Narrowband Further Statement are that from 2010/11:
- In the Local Tandem Conveyance and Transit market BT will no longer be subject to accounting separation and cost accounting obligations.
 - In the Single Transit market BT will no longer be subject to cost accounting obligations. Accounting separation obligations will however remain.

Description

- 4.20 The Fixed Narrowband Wholesale Services market review, published in September 2009, revoked SMP conditions in the Local Tandem Conveyance and Transit market in the year end 31 March 2011.
- 4.21 From 2010/11 therefore BT will not be subject to accounting separation and cost accounting obligations in this market.
- 4.22 The Fixed Narrowband Further Statement, published in February 2010 revoked the cost orientation SMP condition that had previously been imposed on BT in the Single Transit market. The review re-imposed other SMP obligations in that market, including the obligation not to unduly discriminate. In assessing the level of financial reporting obligations, the review concluded that only accounting separation, and not cost accounting, would be required to support the SMP conditions imposed in the market.
- 4.23 However, as BT was subject in the Single Transit market to a price control for part of the year (to 30 September 2009) and cost orientation obligations to February 2010 it was decided that:
- for the year end 31 March 2010, cost accounting and accounting separation obligations would remain; and
 - for the year end 31 March 2011, cost accounting obligations would be removed but accounting separation obligations would remain.
- 4.24 From 2010/11 therefore BT will not be subject to cost accounting obligations in the Single Transit market.

Legal Tests

- 4.25 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OA2 (see Annexes 9 and 10). We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

Question 5: Do you think we have fairly reflected the decisions of the relevant market reviews in the proposed SMP conditions?

Question 6: Do you think we have fairly reflected the decisions of the relevant market reviews 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 31 March 2011**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <https://stakeholders.ofcom.org.uk/consultations/bt-kcom-reporting/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 Gavin Greenfield on 020 7783 4330 or Paul Laker on 020 7783 4578.

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 31 March 2011.

Question 1: Do you agree Ofcom's proposed amalgamation of certain low revenue disclosed services in the AISBO market?

Question 2: Do you agree with Ofcom's proposal to direct BT to prepare and publish further information on the services in the Call Origination market controlled by the NTS retail uplift charge and the PRS bad debt surcharge in the form of an AFI?

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

Question 4: Do you agree with the proposed change to the presentation of the Charge Control Statement in the RFS?

Question 5: Do you think we have fairly reflected the decisions of the relevant market reviews in the proposed SMP conditions?

Question 6: Do you think we have fairly reflected the decisions of the relevant market reviews in the scope, form and content of the RFS?

Annex 5

Impact Assessment

Introduction

- A5.1 The analysis presented in this annex, Sections 1 – 4 above and in Annex 6, represents an impact assessment, as defined in section 7 of the Communications Act 2003 (the Act).
- A5.2 You should send any comments on this impact assessment to us by the closing date for this consultation. We will consider all comments before deciding whether to implement our proposals.
- A5.3 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 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

The citizen and/or consumer interest

- A5.4 The consultation relates to proposed changes to the regulatory financial information prepared by BT. 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.
- A5.5 Some of these proposals are designed to rectify situations where we have not been fully able to monitor the obligations on BT, which are there to prevent abuse of their market position which could have a negative impact on consumers. 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.

Ofcom's policy objective

- A5.6 The purpose of this consultation is to ensure that BT is meeting and continues to meet its regulatory financial reporting obligations.
- A5.7 We have proposed changes that will implement adjustments arising from recently completed market reviews and some other improvements to reporting identified through our work on market reviews and other relevant matters.

Conclusion

- A5.8 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. Taking into account the way Ofcom proposes that obligations relating to NTS Retail and PRS Bad Debt surcharges may be met by the provision of AFI, the way FAC and LRIC service cost data for WBA markets 1 and 2 may be prepared using offline analysis, and the way certain WBA related information may be presented on an EOI basis, all as set out in this document, Ofcom does not expect the proposals to result in a significant incremental cost to BT and KCOM.

Annex 6

Legal Tests

Introduction

- A6.1 This annex sets out how Ofcom has satisfied the legal tests for its proposals to amend the regulatory financial accounting obligations applying to BT, as set out earlier in this consultation document.
- A6.2 For each item in relation to which we propose modifying Directions we show how our duties have been met under Sections 3, 4, and 49(2) of the Act. Where we propose making SMP Conditions¹⁵ we show how our duties have been met under Sections 3, 4, and 47(2) of the Act. What we say as to the latter should be read together with the conclusions set out in the WBA statement referred to elsewhere in this consultation document.

Section 3 and 4 – general duties & the six Community requirements

- A6.3 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.
- A6.4 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.

Section 47(2) tests

- A6.5 Ofcom can set or modify SMP services conditions under section 45 of the Act but only where it is satisfied that the tests under section 47(2) have been met. The tests are that the condition or modification 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.

Section 49(2) tests

- A6.6 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 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:

¹⁵ In relation to the WBA market review

- 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.

1) Disclosure of AISBO Services

Legal tests

- A6.7 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 as proposed in paragraphs 3.2 to 3.10 and Annex 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

- A6.8 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 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 and 4 of the Act. The proposed changes to Direction 4 under SMP condition OA2 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 disclosing AISBO services in a way that aligns with the charges levied by BT on the other communication providers. In consequence Ofcom believes the proposed amendments to Direction 4 under SMP condition 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

- A6.9 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.2 to 3.10 and Annex 10 is objectively justifiable. We are proposing amalgamating the reporting of certain low revenue services. This is because revenues do not appear to be growing at the rates expected and the reporting of many small revenue services may obscure the focus on the main services reported in the RFS. The modification would therefore allow us better to monitor that BT is complying with its non-discrimination and cost orientation obligations in this particular market, and is necessary for that purpose.

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

- A6.10 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.2 to 3.10 and Annex 10 is not unduly discriminatory. BT is the only communications provider with SMP in the AISBO market 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

- A6.11 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.10 and Annex 10 is proportionate. In proposing amalgamating the reporting of certain low revenue 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. 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 market. The proposed modification is, accordingly, no more than necessary for BT to demonstrate compliance with its obligations in the AISBO market as well as 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

- A6.12 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.10 and Annex 10 is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

2) NTS Retail and PRS Bad Debt Surcharge Reporting**Legal tests**

- A6.13 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 as proposed in paragraphs 3.12 to 3.32 and Annex 9 and 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

- A6.14 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 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 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OA2 are 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) by disclosing costs and revenues in the call origination market in a way that shows that BT has complied with its relevant obligations. In consequence Ofcom believes the

proposed amendments to Directions 3 and 4 under SMP condition 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

A6.15 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraphs 3.12 to 3.32 and Annexes 9 and 10 is objectively justifiable. Ofcom needs to be able to monitor that BT is complying with its non-discrimination and cost orientation obligations in the call origination market. To do so, BT must report in some form on the relevant services in that market.

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

A6.16 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraphs 3.12 to 3.32 and Annexes 9 and 10 is not unduly discriminatory. BT is the only communications provider with SMP in the call origination market 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

A6.17 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 3.12 to 3.32 and Annexes 9 and 10 is proportionate. It is necessary for BT to report information on the relevant services in the relevant market, as set out above. But, because of the relatively low level of revenues for these services in this market and the large amount of work required to produce the information, Ofcom proposes that limits are placed on the extent of BT's obligations as set out in paragraphs 3.27 – 3.32 above. With those limits in place, the proposed modifications to the Directions are no more than necessary for BT to demonstrate to Ofcom compliance with its obligations in the call origination market.

Transparent in relation to what it is intended to achieve

A6.18 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 3.12 to 3.32 and Annexes 9 and 10 is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

3) Presentational Changes

Legal tests

A6.19 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 and the Former FA10 Form and content Direction under SMP condition OA2¹⁶ as proposed in paragraphs 3.34 to 3.42 and Annex 10 are met. As far as the proposed changes relate to

¹⁶ The latter Direction originally made under SMP condition FA10.2 but now read as if it was given under SMP condition OA2.

simplifying the form and content of the market level profit and loss statements, BT will be required to do less reporting as a result of the proposed modification to the relevant Directions. In relation to the proposed changes to the Price Control Statement, BT's obligations would change but we do not consider that the overall reporting burden would be increased. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

- A6.20 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 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 and 4 of the Act. In this case Ofcom believes the changes improve the presentation and usefulness of the RFS and in consequence Ofcom believes the proposed amendments 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

- A6.21 Ofcom considers that modifying Direction 4 and the Former FA10 Form and content Direction in the manner described in paragraph 3.34 to 3.42 and Annex 10 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 charge control statement should be as useful and effective as possible as a means of demonstrating BT's compliance with its charge controls in the year. The proposed changes would improve this usefulness and effectiveness (and see also A6.24 and A6.25 below as to this).

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

- A6.22 Ofcom considers that modifying Direction 4 and the Former FA10 Form and content Direction in the manner described in paragraph 3.34 to 3.42 and Annex 10 is not unduly discriminatory. KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements (and is not subject to the changes proposed in this consultation).

Proportionate to what it is intended to achieve

- A6.23 Ofcom considers that modifying Direction 4 and the Former FA10 Form and content Direction in the manner described in paragraph 3.34 to 3.42 and Annex 10 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.

- A6.24 As to the latter, BT is currently required to summarise the charge control cap and changes in average prices over the financial year. This means the RFS does not achieve its main objective of showing how BT has demonstrated compliance with its charge controls in the year because in monitoring charge controls a specified formula is used which is not necessarily consistent with the basis of preparation used for the information within the RFS.
- A6.25 By showing a summary of the charge control data submitted to Ofcom by BT in the reporting year this objective would be better achieved because the information used has been extracted from compliance statements submitted by BT as required by the charge control conditions. The data within these statements has been prepared using the specified formula set out in the charge control. In addition this would not require BT to perform any additional reporting. (This is also relevant to the assessment of objective justification in A6.21 above).

Transparent in relation to what it is intended to achieve

- A6.26 Ofcom considers that modifying Direction 4 and the Former FA10 Form and content Direction in the manner described in paragraph 3.34 to 3.42 and Annex 10 is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

4) Wholesale Broadband Access Market Review

Legal tests

- A6.27 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for setting the SMP conditions as proposed in paragraphs 4.9 to 4.12 and Annex 8, and the modification of Directions 3 and 4 under SMP condition OA2 as proposed in paragraphs 4.8 to 4.16 and Annexes 9 and 10, are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document and in the WBA statement.

Section 3 and 4

- A6.28 As part of the relevant EU market review process Ofcom decided wholesale cost accounting and accounting separation obligations (conditions and directions) should be imposed on BT and, in some cases, KCOM, in specific identified markets as appropriate remedies to their SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. This is set out, in particular, in paragraphs 5.282 – 5.285 (in respect of BT's cost accounting obligations in Market 1), 5.319 – 5.322 (BT's cost accounting obligations in Market 2) and 5.254 – 5.259 (BT's accounting separation obligations in Markets 1 and 2 and KCOM's in the Hull area) of the WBA statement. The proposed changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the proposed amendments to Directions 3 and 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

Section 47(2) tests in respect of BT's cost accounting obligations in WBA Market 1

- A6.29 As we set out in paragraph 5.280 of the WBA statement, in particular, Ofcom considers that the imposition of a cost accounting obligation on BT in this market, as described in paragraph 4.9 to 4.12 and Annex 8 above is objectively justifiable to ensure the basis of charges and charge control obligations are met. The obligation does not discriminate unduly between providers, as it is imposed on BT and BT only in markets where it has been found to have SMP. It is proportionate because without such an obligation, it would not be clear that BT is meeting its obligations and it is transparent since its aims and effects described in the WBA statement are clear and the specific terms are made clear as a result of this consultation on BT's regulatory reporting obligations.

Section 47(2) tests in respect of BT's cost accounting obligations in WBA Market 2

- A6.30 As set out in paragraph 5.317 of the WBA statement, in particular, we consider that the imposition of a cost accounting obligation on BT in this market, as described in paragraph 4.9 to 4.12 and Annex 8 above is objectively justifiable to ensure BT's basis of charges and charge control obligations are met. The obligation does not discriminate unduly between providers, as it is imposed on BT and BT is the only provider with SMP in Market 2. It is proportionate because without such an obligation, it would not be clear that BT is meeting its obligations and it is transparent since its aims and effects described in the WBA statement are clear and the specific terms are made clear in this consultation on BT's regulatory reporting obligations.

Section 47(2) tests in respect of BT's accounting separation obligations in WBA Market 1 and 2 and KCOM's in the Hull area

- A6.31 As set out in paragraph 5.255 of the WBA statement, in particular, Ofcom believes that, given the importance of non-discrimination in these markets, the imposition of an accounting separation obligation on BT and KCOM in these markets, as described in paragraph 4.9 to 4.12 and Annex 8 above, is objectively justifiable. That is, in order to ensure that the obligation not to discriminate unduly is met and the benefits thereof are realised, it is essential that Ofcom and competitors to BT and KCOM are able to monitor the obligations via an accounting separation obligation.
- A6.32 As we went on to say, the obligation does not discriminate unduly between providers, as it is imposed on BT and KCOM only in markets where they have been found to have SMP, and they are the only operators with SMP in these markets. It is proportionate as it is necessary as a mechanism to allow Ofcom and third parties to monitor for discriminatory behaviour by BT and KCOM, whilst not being more intrusive than necessary with respect to their business to achieve its purpose effectively. It is transparent as it is clear that the intention is to allow Ofcom and third parties to monitor compliance with specific remedies (in particular the obligation not to unduly discriminate) imposed to address BT's SMP in Market 1 and Market 2 and KCOM's SMP in the Hull Area.
- A6.33 And, as we also said in paragraph 5.257 of the WBA statement, in particular, the imposition of an accounting separation obligation is specifically justifiable and proportionate in order to ensure the provision of Network Access by BT and KCOM

on a non-discriminatory basis in order to promote competition in relation to the provision of electronic communications networks and services for the maximum benefit of the persons who are customers of CPs. This is because the imposition of an accounting separation obligation will ensure that obligations designed to curb potentially damaging leverage of market power can be effectively monitored and enforced. This is particularly important where there are adjacent geographic markets with different competitive conditions, as in this case. This is because the SMP operator could try to recover some of the cost incurred in these adjacent markets in the market where it holds SMP, thus undermining the prospects of competition in the adjacent markets. The accounting separation obligation will allow Ofcom to monitor the profitability of the SMP provider in the market in which it has SMP.

Section 49(2) tests

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

- A6.34 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.16 and Annexes 9 and 10 is objectively justifiable. The changes are necessary to reflect our findings that BT has SMP in Markets 1 and 2, and for it to demonstrate compliance with the obligations imposed on it in consequence of those findings. BT will report relevant market information including revenues, fully allocated costs (FAC), and incremental costs (LRIC). This will follow the form and content applicable in other markets (save in so far as information will be presented on an EOI basis).

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

- A6.35 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.16 and Annexes 9 and 10 is not unduly discriminatory. BT is the only communications provider with SMP in WBA Markets 1 and 2, and the only provider whose reporting obligations need amending in light of the WBA market review. In relation to KCOM, the only other communications provider with similar obligations, its reporting requirements are not affected by the changes resulting from the WBA market review (as set out elsewhere in this consultation document).

Proportionate to what it is intended to achieve

- A6.36 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.16 and Annexes 9 and 10 is proportionate because it is the minimum necessary to ensure the RFS remains fit for purpose and adequately reflects the outcome of the relevant market review.
- A6.37 That is, we have considered that Ofcom's decisions that BT has SMP in the relevant markets, and that cost accounting and accounting separation obligations should be imposed, were made in the second half of the 2010-2011 reporting year. We have therefore also considered whether the Directions relating to the RFS should relate only to part of that reporting year. We do not consider that they should, and that obligations relating to the full reporting year (and any future reporting years) are proportionate for the following reasons.

- A6.38 It is necessary to ensure that BT reports on the relevant services in the relevant markets, so Ofcom can in turn ensure BT is complying with its SMP obligations. To verify that it is doing so even for the second half of the 2010-2011 reporting year would, it appears to Ofcom, require the provision of information for the whole year. It would be necessary to have that information so as to provide a reconciliation with the information for a more limited period, because verification would be needed to ensure the part year data has been properly extracted from BT's accounting systems.
- A6.39 Further, it appears to us that separating out relevant information for only the second part of the 2010 – 2011 reporting year would require at least the same, if not a greater amount of, work as providing information for the whole year. This is because additional assumptions and data capture would be necessary for a part year representation of the costs, revenues and mean capital employed of these services. And, in any event, the extent, form and content of BT's obligations (reporting relevant market information including revenues, fully allocated costs (FAC), and incremental costs (LRIC)) will only follow, not go beyond, that applicable in other markets.
- A6.40 In addition, we take account of the fact that the relevant obligations would likely continue in place for the whole 2011 – 2012 reporting year, and possibly future years. The obligations imposed by the Directions also reflect what would be the extent of BT's future obligations. And, information in the RFS for the whole year 2010 – 2011 would provide a useful reference point for the level of charges that BT will be using in the 2011 – 2012 reporting year.
- A6.41 Nonetheless, we take account of what BT has told us (see paragraphs 4.15 and 4.16 above). We accept that, for the two relevant WBA markets, the preparation of FAC and LRIC service cost data may be prepared using offline analysis, and that where this is the case, BT will indicate in a note to the RFS that further costing analysis has been carried out and cross refer to supporting documentation that will explain how this has been done. We would regard this as acceptable provided BT meets its obligations created by the relevant SMP conditions and the relevant Directions. Similarly, we propose that certain information may be presented on a less onerous EOI basis.

Transparent in relation to what it is intended to achieve

- A6.42 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.16 and Annexes 9 and 10 is transparent. Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

5) Review of Local Tandem Conveyance and Single Transit on fixed public narrowband networks

Legal tests

- A6.43 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2, as proposed in paragraphs 4.19 to 4.24 and Annexes 9 and 10, are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

- A6.44 As part of a relevant EU market review process (the Fixed Narrowband Wholesale Services market review) Ofcom revoked wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in the Local Tandem conveyance and transit market. As part of another relevant EU market review process (the Fixed Narrowband Further Statement) Ofcom revoked wholesale cost accounting obligations (conditions and directions) on BT in the Single Transit market, but decided that accounting separation obligations (conditions and directions) on BT should remain in that market. The relevant individual market reviews determined that these steps met the tests outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OA2 are designed to ensure BT does not have to demonstrate compliance with obligations that justifiably no longer exist, but also to enable BT to more effectively fulfil the purpose for which the remaining obligations were imposed (i.e. demonstrate non-discrimination). In consequence, Ofcom believes the proposed amendments to Directions 3 and 4 under SMP condition 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

- A6.45 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraphs 4.19 to 4.24 and Annexes 9 and 10 is objectively justifiable. The changes are necessary to reflect our findings in the Fixed Narrowband Wholesale market review and Fixed Narrowband Further Statement: to remove obligations that should no longer exist as a result of both and for BT to demonstrate compliance with the obligations that remain on it as a result of the latter.

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

- A6.46 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.24 and Annexes 9 and 10 is not unduly discriminatory. BT is the only communications provider which has, or had, SMP obligations that are affected by the changes resulting from the Fixed Narrowband Wholesale market review and Fixed Narrowband Further Statement.

Proportionate to what it is intended to achieve

- A6.47 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.24 and Annexes 9 and 10 is proportionate. The changes would ensure that BT's obligations require no more of it than is necessary for it to show compliance with the remaining accounting obligations, and do not extend beyond the obligations that remain in place. The changes are necessary to ensure the RFS remains fit for purpose and adequately reflect the market review.

Transparent in relation to what it is intended to achieve

- A6.48 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.24 and Annexes 9 and 10 is transparent.

Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

Annex 7

SMP Service Market Tables

For ease of reference we have reproduced a current consolidated version of the tables setting out the markets for which BT and KCOM are required to prepare regulatory financial reports and the respective regulatory reporting rules that apply to those markets.¹⁷

These markets were first identified in the notifications set out in Annex 2 and Annex 3 of “The regulatory financial reporting obligations on BT and Kingston Communications Final statement and notification”, issued on 22 July 2004 (the “July 2004 Notification”).

However, the July 2004 Notification has been amended on a number of occasions, in particular as a result of a number of further market reviews we have completed since July 2004, most particularly:

- The review of wholesale international services markets
Statement of 7 July 2006 available at
<http://www.ofcom.org.uk/consult/condocs/wsidd/statement/statement.pdf>
Please refer to the notification at page 14
- The review of the wholesale broadband access markets
Statement of 21 May 2008 available at
<http://www.ofcom.org.uk/consult/condocs/wbamr07/statement/statement.pdf>
Please refer to the notification at page 55
- The business connectivity market review
Statements of 8 December 2008 and 13 February 2009 available at
<http://www.ofcom.org.uk/consult/condocs/bcmr08/bcmr08.pdf>
<http://www.ofcom.org.uk/consult/condocs/bcmr08/statement/statement.pdf>
Please refer to the notification at page 364 of the 8 December 2008 statement
- The review of the fixed narrowband services wholesale markets
Statement of 15 September 2009 and 5 February 2010 available at
http://www.ofcom.org.uk/consult/condocs/wnmr_statement_consultation/main.pdf
http://www.ofcom.org.uk/consult/condocs/wnmr_statement_consultation/statement
Please refer to the notification at page 235 of the 15 September 2009 Statement and the notification at page 65 of the 5 February 2010 Statement
- The review of the fixed narrowband retail services markets
Statement of 15 September 2009 available at
http://www.ofcom.org.uk/consult/condocs/retail_markets/statement/statement.pdf
Please refer to the notification at page 96

¹⁷ It is recommended that you consult the relevant notification(s) for the SMP services conditions as these contain an explanation of the reasons for the decision to amend and the specific modifications that have been made. While every reasonable effort is made to ensure that the information provided in the tables is accurate, no guarantees for the currency or accuracy of information are made. The original notification and the subsequent modifying notifications are signed by an authorised person, and the definitive version is that which has been so signed and which is the original printed version held by Ofcom. For the avoidance of doubt, in the case of any difference between texts, the signed version held by Ofcom shall take precedence over the electronic or printed version.

- The review of the wholesale local access market, statement of 7 October 2010 available at http://stakeholders.ofcom.org.uk/binaries/consultations/wla/statement/WLA_statement.pdf
Please refer to the notification at page 199

It should be noted that the July 2004 Notification may further be amended as a consequence of the proposals notified at Annex 8 to this document and arising out of the review of wholesale broadband access markets, statement of 3 December 2010 available at <http://stakeholders.ofcom.org.uk/consultations/wba/wba-statement/>, as well as by future market reviews.

BT

- BT's regulatory financial reporting obligations are as follows:
 - (a) in respect of the wholesale markets:
 - (i) numbered 1, 4, 6, 7, 9, 10, and 14 to 17 and 17a set out in Table 1 below SMP services conditions as set out in Schedule 2 of the July 2004 Notification, excluding conditions OA29 to OA31 and OA34;
 - (ii) numbered 5, 12 and 13 set out in the Table 1 below, SMP services conditions as set out in Schedule 2 of the July 2004 Notification, excluding subparagraphs (a) to (c) and (f) of condition OA23,¹⁸ conditions OA29 to OA31, and condition OA34; and
 - (b) in respect of the retail market set out in Table 2 below, SMP services conditions as set out in Schedule 2 to the July 2004 Notification, excluding subparagraphs (b), (d) and (e) of condition OA23, conditions OA26 to OA28 and conditions OA32 to OA33.

¹⁸ Although, pursuant to the notification at Annex 8 to this document, Ofcom proposes that subparagraphs (a) to (c) and (f) of condition OA23 should apply to BT in respect of wholesale markets 12 and 13 as set out in that notification

Table 1: Wholesale Markets

| Market identified and in which BT found to have SMP in previous Notification pursuant to section 79 of the Act | Date |
|--|------------------------|
| 1. Wholesale analogue exchange line services in the UK excluding the Hull Area | 15.09.09 ¹⁹ |
| 2. | |
| 3. | |
| 4. Wholesale ISDN2 exchange line services in the UK excluding the Hull Area | As above |
| 5. Wholesale ISDN30 exchange line services in the UK excluding the Hull Area | As above ²⁰ |
| 6. Wholesale call origination on a fixed narrowband network, in the UK excluding the Hull Area | As above ²¹ |
| 7. Local-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area (SMP conditions in Schedule 2 to be revoked from 31.07.10 for this market) | 18.08.05 |
| 8. | |
| 9. Single transit on fixed public narrowband networks in the UK excluding the Hull Area | 5.02.10 |
| 10. Wholesale fixed geographic call termination on each individual network provided by BT | 15.09.09 |
| 11. | |
| 12. ²² Wholesale Broadband Access in Market 1 as defined in OFCOM's Notification published on 21 May 2008 | 21.05.08 |
| 13. ²³ Wholesale Broadband Access in Market 2 as defined in OFCOM's Notification published on 21 May 2008 | As above |
| 14. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the United Kingdom but not including the Hull Area | 8.12.08 |
| 15. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including forty five megabits per second within the UK but not including the Hull Area and the Central East London Area (as defined in OFCOM's notification published on 8 December 2008) | 8.12.08 |
| 16. Provision of alternative interface symmetric broadband origination with a bandwidth capacity up to and including one gigabit per second within the United Kingdom but not including the Hull Area | 8.12.08 |
| 17. Provision of wholesale trunk segments at all bandwidths within the UK | 8.12.08 |
| 17a. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above forty five megabits per second and up to and including one hundred and fifty five megabits per second within the United Kingdom but not including the Hull Area and the Central and East London Area (as defined in OFCOM's notification published on 8 December 2008) | 8.12.08 |

¹⁹ Ofcom made a new market power determination in respect of this market on 20.12.10, but there was no amendment to this table. See the accompanying notification for the relevant SMP services conditions.

²⁰ This should read "28.11.03." But, note that Ofcom made a new market power determination in respect of this market on 20.08.10, but there was no amendment to this table. See the accompanying notification for the relevant SMP services conditions.

²¹ This should read "15.09.09"

²² Pursuant to the notification at Annex 8 to this document, Ofcom proposes that paragraph 12 of this table is amended as set out in that notification (in particular, amending the dates shown to read 3 December 2010)

²³ Pursuant to the notification at Annex 8 to this document, Ofcom proposes that paragraph 13 of this table is amended as set out in that notification (in particular, amending the dates shown to read 3 December 2010)

| | |
|--|---------|
| 18. Wholesale local access services within the UK, but not including the Hull Area | 7.10.10 |
|--|---------|

Table 2: Retail Markets

| Market identified and in which BT found to have SMP in previous Notification pursuant to section 79 of the Act | Date |
|--|---------|
| 18. | |
| 19. | |
| 20. | |
| 21. | |
| 22. | |
| 23. | |
| 24. | |
| 25. Provision of traditional interface retail leased lines up to and including a bandwidth capacity of eight megabits per second within the UK but not including the Hull Area | 8.12.08 |

KCOM

KCOM's regulatory financial reporting obligations are as follows:

in respect of the wholesale markets:

- (i) numbered 1, 4, 6, and 7 set out in Table 1 below, SMP services conditions as set out in the July 2004 Notification, excluding conditions OB28 to OB30 and condition OB33;
- (ii) numbered 9 to 12 set out in Table 1 below, SMP services conditions as set out in the July 2004 Notification, excluding conditions (d) and (e) of condition OB23, conditions OB28 to OB31 and condition OB33; and
- (iii) numbered 5 and 8 set out in Table 1 below, SMP services conditions as set out in the July 2004 Notification, excluding (a) to (c) and (f) of condition OB23, conditions OB28 to OB30 and condition OB33.

Table 1: Wholesale Markets

| Market identified and in which Kingston found to have SMP in previous Notification pursuant to section 79 of the Act | Date |
|---|------------------------|
| 1. Wholesale analogue exchange line services in the Hull Area | 15.9.09 ²⁴ |
| 2. | |
| 3. | |
| 4. Wholesale ISDN2 exchange line services in the Hull Area | As above |
| 5. Wholesale ISDN30 exchange line services in the Hull Area | As above ²⁵ |
| 6. Wholesale call origination on a fixed narrowband network, in Hull Area | As above ²⁶ |
| 7. Wholesale fixed geographic call termination on each individual network provided by KCOM ²⁷ | 15.9.09 |
| 8. ²⁸ Wholesale Broadband Access in the Hull Area | 21.05.08 |
| 9. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the Hull Area | 8.12.08 |
| 10. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including forty five megabits per second within the Hull Area | 8.12.08 |
| 11. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above forty five megabits per second and up to and including one hundred and fifty five megabits per second within the Hull Area | 8.12.08 |
| 12. Provision of alternative interface symmetric broadband origination with a bandwidth capacity of up to and including one gigabit per second within the Hull Area | 8.12.08 |

²⁴ Ofcom made a new market power determination in respect of this market on 20.12.10, but there was no amendment to this table. See the accompanying notification for the relevant SMP services conditions.

²⁵ This should read "28.11.03". But, note that Ofcom made a new market power determination in respect of this market on 20.08.10, but there was no amendment to this table. See the accompanying notification for the relevant SMP services conditions.

²⁶ This should read "15.09.09"

²⁷ Note that the obligation to prepare RFS only relates to Wholesale fixed geographic call termination on each individual network provided by KCOM in the Hull Area.

²⁸ Pursuant to the notification at Annex 8 to this document, Ofcom proposes that paragraph 8 of this table is amended as set out in that notification (in particular, amending the date shown to read 3 December 2010).

Table 2: Retail Markets

None

Annex 8

Proposed Notification to BT and KCOM

Notification under section 48(2) and 86 of the Communications Act 2003

Proposal for setting of SMP services conditions on BT and KCOM in relation to their regulatory accounting obligations in respect of various markets

Background

1. On 3 December 2010, the Office of Communications ("OFCOM") published a statement entitled *Review of the wholesale broadband access markets - Statement on market definition, market power determinations and remedies* (the "2010 WBA Statement") identifying a number of markets for the purpose of making market power determinations and setting SMP services conditions.
2. At Annex 1 of the 2010 WBA Statement OFCOM published a notification identifying, in accordance with section 79 of the Communications Act 2003 (the "Act"), certain services markets including "wholesale broadband access provided in Market 1" and "wholesale broadband access provided in Market 2" in relation to both of which OFCOM determined that BT has significant market power, and "wholesale broadband access provided in the Hull area" in relation to which OFCOM determined that KCOM has significant market power.
3. As a result of these market power determinations, in accordance with section 48(1) of the Act, OFCOM set on BT and KCOM the SMP services conditions set out in Schedules 1 to 3 to Annex 1 of the 2010 WBA Statement.
4. In the 2010 WBA Statement, OFCOM also decided to impose a cost accounting and accounting separation obligation on BT, both in relation to the "wholesale broadband access provided in Market 1" and "wholesale broadband access provided in Market 2" markets, and an accounting separation obligation on KCOM in relation to the "wholesale broadband access provided in the Hull area" market, and set out the reasons for doing so.
5. On 22 July 2004, Ofcom published a statement entitled *The Regulatory Financial Reporting Obligations on BT and Kingston Communications – Final Statement and Notification* (the "2004 Regulatory Accounting Notification"), which imposed various regulatory financial reporting obligations on BT and KCOM, and which has subsequently been amended on various occasions.
6. In the 2010 WBA Statement, OFCOM explained that the legal instrument for imposing the cost accounting and accounting separation conditions would be notified in the consultation *Changes to BT and KCOM's regulatory and financial reporting – 2010/2011 update* which would propose to further amend the 2004 Regulatory Accounting Notification and would be published on the same day.

Proposals

7. OFCOM hereby makes, in accordance with section 48(2) of the Communications Act (the "Act") the following proposal to modify:
 - i. The Notification to BT dated 22 July 2004 setting SMP services conditions on BT in relation to regulatory accounting in various markets (as modified); and
 - ii. The Notification to KCOM dated 22 July 2004 setting SMP services conditions on KCOM in relation to regulatory accounting in various markets (as modified).
8. By proposing to modify the notifications referred to in paragraph 7 above, OFCOM is proposing to set SMP services conditions on BT and KCOM by a notification which does not also make the market power determination by reference to which the condition is set. In accordance with section 86(1) of the Act, OFCOM is satisfied that there has been no material change in the markets referred to in paragraph 2 since the market power determinations referred to in the same paragraph were made.
9. The proposed modifications to the 22 July 2004 Notifications to BT and KCOM are set out in Annexes A and B to this Notification.
10. The effect of the proposals, and the reasons for making the proposals, are set out in the accompanying explanatory document and in the 2010 WBA Statement.
11. OFCOM considers that the proposed SMP services conditions referred to in paragraph 9 above comply with the requirements of sections 45 to 50 and sections 78 to 92 of the Act, as appropriate and relevant to each such SMP services condition.
12. In making the proposal referred to in paragraph 7 of this Notification OFCOM has considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.
13. Representations may be made to OFCOM about the proposal set out in this Notification and the accompanying explanatory document by 5pm on 31 March 2011.
14. In accordance with section 50 of the Act, copies of this Notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.
15. In this Notification:
 - i. "BT" means British Telecommunications plc whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006; and

- ii. "KCOM" means KCOM Group plc whose registered company number is 2150618, and including any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006.

Craig Lonie

Director of Competition Finance, Ofcom

A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

16 February 2011

Annex A

The Notification to BT dated 22 July 2004 setting SMP services conditions on BT in relation to regulatory accounting in various markets as modified is hereby amended as follows:

1. In paragraph 4.a.i of the Notification, insert “12, 13” after the words “numbered 1, 4, 6, 7, 9, 10,”;
2. In paragraph 4.a.ii of the Notification, remove “,12 and 13” after the words “numbered 5”;
3. In Part 1 of Schedule 1 to the Notification, remove the reference in column 1 of paragraph 12 to “Wholesale Broadband Access in Market 1 as defined in OFCOM's Notification published on 21 May 2008” and replace it with “Wholesale Broadband Access in Market 1 as defined in OFCOM's Notification published on 3 December 2010” and remove the reference in column 2 of paragraph 12 to “21.05.08” and replace it with “3.12.10”; and
4. In Part 1 of Schedule 1 to the Notification, remove the reference in column 1 of paragraph 13 to “Wholesale Broadband Access in Market 2 as defined in OFCOM's Notification published on 21 May 2008” and replace it with “Wholesale Broadband Access in Market 2 as defined in OFCOM's Notification published on 3 December 2010”.

Annex B

The Notification to KCOM dated 22 July 2004 setting SMP services conditions on KCOM in relation to regulatory accounting in various markets as modified is hereby amended as follows:

1. In Part 1 of Schedule 1 to the Notification, remove the reference in column 2 of paragraph 8 to “21.05.08” and replace it with “3.12.10”

Annex 9

Notification of Proposed Amendments to Direction 3 (BT)

Notification of a proposal under section 49 of the Communications Act 2003

Proposal for modifying a Direction given under SMP services condition OA2 specifying requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

1. The Office of Communications ("OFCOM") hereby makes, in accordance with section 49 of the Communications Act 2003 ("the Act"), the following proposal to modify:

- i. Direction 3 given under SMP services condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*, as modified by the following statements:
 - a. at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*;
 - b. at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*;
 - c. at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*;
 - d. at Annex 4 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*;
 - e. at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and
 - f. at Annex 3 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*,

which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting.

2. The draft modification to the Directions is set out in the Schedule to this notification.

3. The effect of the draft modification to the Direction, and the reasons for making the proposal, are set out in the accompanying explanatory statement.

4. Representations may be made to OFCOM about the proposed draft modification to the Direction by 5pm on 31 March 2011.

5. In accordance with section 50 of the Act, copies of this notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.

Craig Lonie Director of Competition Finance, Ofcom
A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

16 February 2011

Schedule

[Draft] Direction modifying a Direction under section 49 of the Communications Act 2003 and SMP services conditions OA2 specifying requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) the FA10 SMP services conditions have now been revoked in accordance with section 48 of the Act, but BT remains subject to the OA SMP services conditions;

(D) in complying with the OA SMP services conditions referred to in paragraphs B and C above, and in particular condition OA5, BT is required, amongst other things, to:

- a) prepare;
- b) secure an audit opinion in respect of;
- c) deliver to OFCOM (with the corresponding audit opinion); and
- d) publish (with the corresponding audit opinion),

the regulatory financial statements as directed by OFCOM from time to time.

(E) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(F) condition OA2 includes, and FA10.2 included, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10;

(G) Ofcom has made such directions under conditions OA2 and FA10.2 in relation to BT's obligations under conditions OA1 – OA 34 and FA10, although those made under condition FA10.2 now have force as if made under condition OA2 and are to be read accordingly;

(H) this modified Direction modifies Direction 3 which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out amendments to the regulatory financial statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5.

(I) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- i. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- ii. not such as to discriminate unduly against particular persons or against a particular description of persons;
- iii. proportionate to what it is intended to achieve; and
- iv. in relation to what it is intended to achieve, transparent;

(J) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(K) on 16 February 2011, OFCOM published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'First Notification');

(L) a copy of the First Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(M) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 5pm on 31 March 2011;

(N) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the First Notification, with or without modification, only if:

- i. they have considered every representation about the proposal that is made to them within the period specified in the First Notification; and
- ii. they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(O) OFCOM has considered every representation about the proposed modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, therefore, pursuant to section 49 of the Act and services condition OA2, OFCOM hereby gives the following modification to Direction:

1. Direction 3 shall be modified as set out in Annex A to this modified Direction.
2. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "Act" means the Communications Act 2003 (c. 21);
 - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006;
 - c) "Direction 3" means the Original Direction 3 and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 regulatory financial statement, dated 26 June 2008*; at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and at Annex 3 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;
 - d) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - e) "Notification" means the notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above;
 - f) "Original Direction 3" means the Direction given under SMP services condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
 - g) "OFCOM" means the Office of Communications;
 - h) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
4. For the purpose of interpreting this modified Direction:
 - a) headings and titles shall be disregarded; and
 - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

5. This Direction shall take effect on the day it is published.
6. The Annexes to this modified Direction shall form part of this modified Direction.

Craig Lonie

Director of Competition Finance, Ofcom

A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

[xxxx] 2011

Annex A

Direction 3 is modified as shown below in that the words underlined are inserted and the words struck through are deleted.

| Note "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published. | | Technical areas | Point of Handover | Wholesale Broadband Access Market 1 | WS service A | WS service B | Wholesale Broadband Access Market 2 | WS service A | WS service B | Wholesale local access market | wholesale service A | wholesale service B etc | Wholesale business ISDN30 exchange line services | wholesale service A |
|--|---|-----------------|-------------------|-------------------------------------|--------------|--------------|-------------------------------------|--------------|--------------|-------------------------------|---------------------|-------------------------|--|---------------------|
| Annex 1 | Statement by Ofcom | P | | P | | | P | | | P | | | | |
| Annex 2 | Statement of responsibility | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Annex 3 | Consolidated performance summary | P | | P | | | P | | | P | | | P | |
| Annex 4 | Regulatory financial review | P | | P | | | P | | | P | | | P | |
| Annex 5A | Attribution of wholesale current costs | P | N | P | N | N | P | N | N | P | N | N | P | N |
| Annex 6A | Attribution of wholesale current cost mean capital employed | P | N | P | N | N | P | N | N | P | N | N | P | N |
| Annex 7 | Financial performance in Access markets | P | | P | | | P | | | P | | | P | |
| Annex 8 | Financial performance in other wholesale SMP markets | | | | | | | | | | | | | |
| Annex 10 | Market Group Financial Review | P | | P | | | P | | | P | | | P | |
| Annex 11 | Market summary | P | | | | | | | | P | | | | |
| Annex 12 | Market summary | | | P | | | P | | | | | | P | |
| Annex 13 | Market summary (ToD) | | | | | | | | | | | | | |
| Annex 14 | Market Level Financial Review | P | | P | | | P | | | P | | | P | |
| Annex 15 | Network Activity Statement | P | | P | | | P | | | P | | | P | |
| Annex 16 | Calculation of FAC based on component costs and usage factors | P | | P | | | P | | | P | | | P | |
| Annex 17 | BT Network Services Reconciliation | P | | P | | | P | | | P | | | P | |
| Annex 19 | BT Reconciliation Statement - P&L | P | | P | | | P | | | P | | | P | |
| Annex 20 | BT Reconciliation statement -MCE | P | | P | | | P | | | P | | | P | |
| Annex 22 | Notes to the Financial Statements | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Annex 23 | Report of the Regulatory Auditors | P | | P | | | P | | | P | | | P | |
| Annex 24 | Price controls in wholesale markets | P | | P | | | P | | | P | | | P | |
| Annex 25 | Price controls in wholesale markets | P | | P | | | P | | | P | | | P | |

| Note "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published. | Call origination on fixed public narrowband networks | WS Call originating local exchange segment PSTN and ISDN (excluding Operator Assistance) | WS Call originating local exchange segment (incl Operator Assistance) | WS Call originating local exchange segment ISDN (including Operator Assistance) | WS Call originating local exchange segment PSTN and ISDN (incl Operator Assistance) | WS Call origination local exchange Stick | WS Call origination local exchange Stick (ISDN) | WS local exchange Call origination circuit excluding FRIACO port | Local-tandem conveyance and transit on fixed public narrowband networks | WS local-tandem conveyance segment | WS local-tandem conveyance segment (ISDN) | WS LTT Stick | WS LTT Stick (ISDN) | Single transit on fixed public narrowband networks | WS Single transit segment PSTN and ISDN |
|--|--|--|---|---|---|--|---|--|---|------------------------------------|---|--------------|---------------------|--|---|
| Statement by Ofcom | P | | | | | | | | P | | | | | P | |
| Statement of responsibility | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Consolidated performance summary | P | | | | | | | | P | | | | | P | |
| Regulatory financial review | P | | | | | | | | P | | | | | P | |
| Attribution of Wholesale current costs | P | N | N | N | N | N | N | N | P | N | N | N | N | P | N |
| Attribution of Wholesale Current Cost Mean Capital Employed | P | N | N | N | N | N | N | N | P | N | N | N | N | P | N |
| Financial performance in Access markets | | | | | | | | | | | | | | | |
| Financial performance in other wholesale SMP markets | P | | | | | | | | P | | | | | P | |
| Market Group Financial Review | P | | | | | | | | P | | | | | P | |
| Market summary | | | | | | | | | | | | | | | |
| Market summary | | | | | | | | | | | | | | P | |
| Market summary (ToD) | P | | | | | | | | P | | | | | P | |
| Market Level Financial Review | P | | | | | | | | P | | | | | P | |
| Network Activity Statement | P | | | | | | | | P | | | | | P | |
| Calculation of FAC based on component costs and usage factors | P | | | | | | | | P | | | | | P | |
| BT Network Services Reconciliation | P | | | | | | | | P | | | | | P | |
| BT Reconciliation Statement - P&L | P | | | | | | | | P | | | | | P | |
| BT Reconciliation statement -MCE | P | | | | | | | | P | | | | | P | |
| Notes to the Financial Statements | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Report of the Regulatory Auditors | P | | | | | | | | P | | | | | P | |
| Price controls in wholesale markets | P | | | | | | | | P | | | | | P | |
| Price controls in wholesale markets | P | | | | | | | | P | | | | | P | |

| Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published. | | Alternative interface symmetric broadband origination in the UK excluding the Hull Area (up to and including 1Gbit) | WS service A | WS service B | WES/LES | BES | Technical areas | Point of Handover | Wholesale Broadband Access Market 1 | wholesale service A | wholesale service B | Wholesale Broadband Access Market 2 | wholesale service A | wholesale service B | Wholesale local access market | wholesale service A | wholesale service B etc |
|---|--|---|--------------|--------------|---------|-----|-----------------|-------------------|-------------------------------------|---------------------|---------------------|-------------------------------------|---------------------|---------------------|-------------------------------|---------------------|-------------------------|
| Annex 26 | Additional Information by way of notes | | | | | | | | | | | | | | | | |
| AI-1 | Cost category analysis for network components, increments and common cost | | N | N | N | N | | N | | | | | | | | N | N |
| AI-2 | Summarised activity analysis of components | | N | N | N | N | | N | | | | | | | | N | N |
| AI-3 | Cost category analysis for network components and increments | | N | N | N | N | | N | | | | | | | | N | N |
| AI-4 | Summarised activity analysis for network components and increments | | N | N | N | N | | N | | | | | | | | N | N |
| AI-5 | Analysis by asset category and network activities | | N | N | N | N | | N | | | | | | | | N | N |
| AI-6 | CCA fixed asset movement statement | | N | N | N | N | | N | | | | | | | | N | N |
| AI-7 | Total mean capital employed and detailed activity analysis | | N | N | N | N | | N | | | | | | | | N | N |
| AI-9 | Detailed Network activity analysis of mean capital employed | | N | N | N | N | | N | | | | | | | | N | N |
| AI-10 | Graphs over time of the various raw indices, index weightings & composite indices | N | | | | | N | | | | | | | | | N | |
| AI-11 | Estimated economic useful lives, valuation and depreciation basis etc | N | | | | | N | | | | | | | | | N | |
| AI-13 | Total operating costs & mean capital employed costs for each plant group | N | N | N | N | N | N | N | | | | | | | | N | N |
| AI-14 | CPS set up costs and their recovery over time on a discounted cash flow basis | | | | | | | | | | | | | | | | |
| AI-15 | Provision of BT 'Data File' | N | N | N | N | N | N | N | N | | | N | | | N | N | N |
| AI-20 | CCA information to allow Ofcom to re-calculate the RAV for copper assets | N | N | N | N | N | N | | | | | | | | N | N | N |
| AI-21 | Comprehensive analysis of the transfer charges | N | N | N | N | N | N | N | N | | | N | | | N | N | N |
| AI-22 | Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue | | | | | | N | | | | | | | | | | |
| AI-23 | Cost data for plant group to service for the PPC services and technical areas | | | | | | P | P | | | | | | | | | |
| AI-24 | Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis | | | | | | | | N | | | N | | | | | |
| AI-25 | Analysis of input costs from the business connectivity markets to downstream (retail) activities | N | N | N | N | N | N | N | | | | | | | | | |
| AI-26 | Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately | P | P | P | P | P | P | P | | | | | | | P | P | P |
| AI-27 | Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES | N | N | N | N | N | N | N | | | | | | | N | N | N |
| AI-28 | Disclosure of NTS Retail and PRS Bad Debt Service information | | | | | | | | | | | | | | | | |

| | | Call origination on fixed public narrowband networks | WS Call originating local exchange segment PSTN and ISDN (excluding Operator Assistance) | WS Call originating local exchange segment (incl Operator Assistance) | WS Call originating local exchange segment ISDN (including Operator Assistance) | WS Call originating local exchange segment PSTN and ISDN (incl Operator Assistance) | WS Call origination local exchange Stick | WS Call origination local exchange Stick (ISDN) | WS local exchange Call origination circuit excluding FRIACO port | WS FRIACO port at the local exchange | WS PPP for FRIACO |
|--|--|--|--|---|---|---|--|---|--|--------------------------------------|-------------------|
| Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published. | | | | | | | | | | | |
| Annex 26 | Additional Information by way of notes | | | | | | | | | | |
| AI-1 | Cost category analysis for network components, increments and common cost | | N | N | N | N | N | N | N | N | N |
| AI-2 | Summarised activity analysis of components | | N | N | N | N | N | N | N | N | N |
| AI-3 | Cost category analysis for network components and increments | | N | N | N | N | N | N | N | N | N |
| AI-4 | Summarised activity analysis for network components and increments | | N | N | N | N | N | N | N | N | N |
| AI-5 | Analysis by asset category and network activities | | N | N | N | N | N | N | N | N | N |
| AI-6 | CCA fixed asset movement statement | | N | N | N | N | N | N | N | N | N |
| AI-7 | Total mean capital employed and detailed activity analysis | | N | N | N | N | N | N | N | N | N |
| AI-9 | Detailed Network activity analysis of mean capital employed | | N | N | N | N | N | N | N | N | N |
| AI-10 | Graphs over time of the various raw indices, index weightings & composite indices | N | | | | | | | | | |
| AI-11 | Estimated economic useful lives, valuation and depreciation basis etc | N | | | | | | | | | |
| AI-13 | Total operating costs & mean capital employed costs for each plant group | N | N | N | N | N | N | N | N | N | N |
| AI-14 | CPS set up costs and their recovery over time on a discounted cash flow basis | | | | | | | | | | |
| AI-15 | Provision of BT 'Data File' | N | N | N | N | N | N | N | N | N | N |
| AI-20 | CCA information to allow Ofcom to re-calculate the RAV for copper assets | | | | | | | | | | |
| AI-21 | Comprehensive analysis of the transfer charges | N | N | N | N | N | N | N | N | N | N |
| AI-22 | Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue | | | | | | | | | | |
| AI-23 | Cost data for plant group to service for the PPC services and technical areas | | | | | | | | | | |
| AI-24 | Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis | | | | | | | | | | |
| AI-25 | Analysis of input costs from the business connectivity markets to downstream (retail) activities | | | | | | | | | | |
| AI-26 | Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately | | | | | | | | | | |
| AI-27 | Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES | | | | | | | | | | |
| AI-28 | Disclosure of NTS Retail and PRS Bad Debt Service information | N P | | | | | | | | | |

| Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published. | | Local-tandem conveyance and transit on fixed-public narrowband networks | WS-local-tandem conveyance-segment | WS-local-tandem conveyance-segment (ISDN) | WS-LTT Stick | WS-LTT Stick (ISDN) | Single transit on fixed-public narrowband networks | WS-Single-transit segment PSTN and ISDN |
|---|--|---|------------------------------------|---|--------------|---------------------|--|---|
| Annex 26 | Additional Information by way of notes | | | | | | | |
| AI-1 | Cost category analysis for network components, increments and common cost | | N | N | N | N | | N |
| AI-2 | Summarised activity analysis of components | | N | N | N | N | | N |
| AI-3 | Cost category analysis for network components and increments | | N | N | N | N | | N |
| AI-4 | Summarised activity analysis for network components and increments | | N | N | N | N | | N |
| AI-5 | Analysis by asset category and network activities | | N | N | N | N | | N |
| AI-6 | CCA fixed asset movement statement | | N | N | N | N | | N |
| AI-7 | Total mean capital employed and detailed activity analysis | | N | N | N | N | | N |
| AI-9 | Detailed Network activity analysis of mean capital employed | | N | N | N | N | | N |
| AI-10 | Graphs over time of the various raw indices, index weightings & composite indices | N | | | | | N | |
| AI-11 | Estimated economic useful lives, valuation and depreciation basis etc | N | | | | | N | |
| AI-13 | Total operating costs & mean capital employed costs for each plant group | N | N | N | N | N | N | N |
| AI-14 | CPS set up costs and their recovery over time on a discounted cash flow basis | | | | | | | |
| AI-15 | Provision of BT 'Data File' | N | N | N | N | N | N | N |
| AI-20 | CCA information to allow Ofcom to re-calculate the RAV for copper assets | | | | | | | |
| AI-21 | Comprehensive analysis of the transfer charges | N | N | N | N | N | N | N |
| AI-22 | Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue | | | | | | | |
| AI-23 | Cost data for plant group to service for the PPC services and technical areas | | | | | | | |
| AI-24 | Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis | | | | | | | |
| AI-25 | Analysis of input costs from the business connectivity markets to downstream (retail) activities | | | | | | | |
| AI-26 | Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately | | | | | | | |
| AI-27 | Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES | | | | | | | |
| AI-28 | Disclosure of NTS Retail and PRS Bad Debt Service information | | | | | | | |

Annex 10

Notification of Proposed Amendments to Direction 4 and the Former FA10 Form and Content Direction (BT)

Notification of a proposal under section 49 of the Communications Act 2003

Proposal for modifying a Direction given under SMP services condition OA2 and a Direction originally given under SMP services condition FA 10.2 and now given under SMP services condition OA2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

1. The Office of Communications ("OFCOM") hereby makes, in accordance with section 49 of the Communications Act 2003 ("the Act"), the following proposal to modify:

- i. Direction 4 given under SMP services condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*, as modified by the following statements:
 - a. at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*;
 - b. at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*;
 - c. at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*;
 - d. at Annex 5 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*;
 - e. at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and
 - f. at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*,

which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain regulatory financial statements required by virtue of condition OA5 and Direction 3 (as amended); and

- ii. a Direction originally given under SMP services condition FA10.2 at Schedule 5 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*, as modified by the following statements:
 - a. at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*;

- b. at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*;
- c. at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*;
- d. at Annex 5 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*;
- e. at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and
- f. at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*,

which related to BT's obligations under SMP services conditions FA10, in that it set out the form and content to be applied by BT in preparing certain regulatory financial statements required by virtue of condition FA10.5 and the FA10 Preparation, audit and delivery Direction (as amended), and which, by virtue of the modification of SMP services condition OA2 at Schedule 3 of Annex 2 of the *Review of the Wholesale Local Access Market, dated 7 October 2010*, continues to have force under SMP services condition OA2 as if it was given under that condition and is to be read accordingly ("the Former FA10 Form and Content Direction").

- 2. The draft modification to the Directions is set out in the Schedule to this notification.
- 3. The effect of the draft modification to the Directions, and the reasons for making the proposal, are set out in the accompanying explanatory statement.
- 4. Representations may be made to OFCOM about the proposed draft modification to the Directions by 5pm on 31 March 2011.
- 5. In accordance with section 50 of the Act, copies of this notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.

Craig Lonie Director of Competition Finance, Ofcom
A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

16 February 2011

Schedule

[Draft] Direction modifying Directions under section 49 of the Communications Act 2003 and SMP services condition OA2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subject to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) the FA10 SMP services conditions have now been revoked in accordance with section 48 of the Act, but BT remains subject to the OA SMP services conditions;

(D) in complying with the OA SMP services conditions referred to in paragraphs B and C above, and in particular condition OA5, BT is required to prepare such Regulatory Financial Statements as directed by OFCOM from time to time;

(E) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(F) condition OA2 includes, and FA10.2 included, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10;

(G) Ofcom has made such directions under conditions OA2 and FA10.2 in relation to BT's obligations under conditions OA1 – OA 34 and FA10, although those made under condition FA10.2 now have force as if made under condition OA2 and are to be read accordingly;

(H) this modified Direction modifies:

- i. Direction 4 which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and Direction 3; and
- ii. the Former FA10 Form and Content Direction, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements that were required by virtue of condition FA10.5 and the FA10 Preparation, audit and delivery Direction, and are now required by condition OA5 and the Former FA10 Preparation, audit and delivery Direction;

(I) BT is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OA7 and OA21;

(J) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- i. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- ii. not such as to discriminate unduly against particular persons or against a particular description of persons;
- iii. proportionate to what it is intended to achieve; and
- iv. in relation to what it is intended to achieve, transparent;

(K) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(L) on 16 February 2011, OFCOM published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'First Notification');

(M) a copy of the First Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(N) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 5pm on 31 March 2011;

(O) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the First Notification, with or without modification, only if:

- i. they have considered every representation about the proposal that is made to them within the period specified in the First Notification; and
- ii. they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(P) OFCOM has considered every representation about the proposed modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, therefore, pursuant to section 49 of the Act and condition OA2, OFCOM hereby gives the following modification to Direction 4 and the Former FA 10 Form and Content Direction:

1. The form and content of the Regulatory Financial Statements set out in Direction 4 shall be amended as follows in Annexes A and C to this modified Direction.
2. The form and content of the Regulatory Financial Statements set out in the Former FA10 Form and Content Direction shall be amended as follows in Annex B to this modified Direction.
3. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "Act" means the Communications Act 2003 (c. 21);
 - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006;
 - c) "Direction 3" means the Original Direction 3 and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 Regulatory Financial Statement, dated 26 June 2008*; at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and at Annex 3 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;
 - d) "Direction 4" means the Original Direction 4 and the following modifying Directions: at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 5 of *Changes to BT's 2007/08 Regulatory Financial Statement, dated 26 June 2008*; at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*, which relates to BT's obligations in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and Direction 3;
 - e) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - f) "FA10 Form and Content Direction" means the Original FA10 Form and Content Direction and the following modifying Directions: at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 5 of *Changes to BT's 2007/08 Regulatory Financial Statement, dated 26 June 2008*; at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and at Annex 4 of *Changes to BT*

and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010, which related to BT's obligations in that it set out the form and content to be applied by BT in respect of preparing certain Regulatory Financial Statements required by virtue of condition FA10.5 and the FA10 Direction Preparation, audit and delivery Direction;

- g) "Former FA10 Form and Content Direction" means the FA10 Form and Content Direction which, by virtue of the modification of SMP services condition OA2 at Schedule 3 of Annex 2 of the Review of the *Wholesale Local Access Market, dated 7 October 2010*, continues to have force under SMP services condition OA2 as if it was given under that condition and is to be read accordingly;
- h) "FA10 Preparation, audit and delivery Direction" means the Original FA10 Preparation, audit and delivery Direction and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 Regulatory Financial Statements, dated 26 June 2008*; at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*; and at Annex 3 of *Changes to BT and KCOM's regulatory financial reporting – 2009/10 update, dated 4 June 2010*, which related to BT's obligations under SMP services conditions FA10, in that it set out requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;
- i) "Former FA10 Preparation, audit and delivery Direction" means the FA10 Preparation, audit and delivery Direction which, by virtue of the modification of SMP services condition OA2 at Schedule 3 of Annex 2 of the Review of the Wholesale Local Access Market, dated 7 October 2010, continues to have force under SMP services condition OA2 as if it was given under that condition and is to be read accordingly;
- j) "Notification" means the notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above;
- k) "Original Direction 3" means the Direction given under SMP services condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
- l) "Original Direction 4" means Direction 4 given under SMP services condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
- m) "Original FA10 Form and content Direction" means the Direction given under SMP services condition FA10.2 at Schedule 5 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*;
- n) "Original FA10 Preparation, audit and delivery Direction" means the Direction given under SMP services condition FA10.2 at Schedule 4 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*;
- o) "OFCOM" means the Office of Communications;

- p) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

4. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.

5. For the purpose of interpreting this modified Direction:

- a) headings and titles shall be disregarded; and
- b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

6. This Direction shall take effect on the day it is published.

7. The Annexes to this modified Direction shall form part of this modified Direction.

Craig Lonie

Director of Competition Finance, Ofcom

A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

[xxxx] 2011

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 pink and green shall be amalgamated as indicated.

Annex 8

Financial performance in other wholesale SMP markets

Purpose of statement: to provide summary of financial performance in regulated wholesale markets, other than access markets

for the year ended 31 March 200x

[illegible]

for the year ended 31 March 200y

[illegible]

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

Summary

| | Internal Sales £m | External Sales £m | Rounding £m | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementary depreciation £m | Other adjustments £m | Roundings £m | Total CCA operating costs £m | Return £m | Mean capital employed £m | Return on mean capital employed % |
|------|----------------------|----------------------|----------------|--------------------------------|-----------------------|------------------------|---------------------------|----------------------------------|-------------------------|-----------------|---------------------------------|--------------|-----------------------------|--------------------------------------|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| 200y | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

| | | | | Non- discrimination | | | | Cost orientation | | | |
|---|--|--|--|----------------------|----------------------|----------------|-------------|--------------------|-----------------------------|--|-------------------|
| | | | | Internal Sales £m | External Sales £m | Turnover £m | Volume Unit | Average price £ | FAC (see Section 5) £ | Indicative LRIC floors & ceilings as multiple of FAC | Average price/FAC |
| for the year ended 31 March 200x | | | | | | | | | | | |
| Service | | | | | | | | | | | |
| Service 1 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 1 External | | | | | £ | £ | x | £ | £ | x.xx | x.xx |
| Service 2 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 2 External | | | | | | | | | | | |
| etc | | | | | | | | | | | |
| Provisions and other accounting adjustments | | | | £ | £ | £ | | | | | |
| Unidentified immaterial services | | | | £ | £ | £ | | | | | |
| Impact of differences between calculated and ledgered volumes | | | | £ | £ | £ | | | | | |
| Other | | | | £ | £ | £ | | | | | |
| for the year ended 31 March 200y | | | | | | | | | | | |
| Service | | | | | | | | | | | |
| Service 1 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 1 External | | | | | £ | £ | x | £ | £ | x.xx | x.xx |
| Service 2 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 2 External | | | | | | | | | | | |
| etc | | | | | | | | | | | |
| Provisions and other accounting adjustments | | | | £ | £ | £ | | | | | |
| Unidentified immaterial services | | | | £ | £ | £ | | | | | |
| Impact of differences between calculated and ledgered volumes | | | | £ | £ | £ | | | | | |
| Other | | | | £ | £ | £ | | | | | |

Annex 11

Wholesale Broadband Access

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

Summary

| | Internal Sales £m | External Sales £m | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementary depreciation £m | Other adjustments £m | Roundings £m | Total CCA operating costs £m | Return £m | Mean capital employed £m | Return on mean capital employed % |
|------|----------------------|----------------------|--------------------------------|--------------------------|---------------------------|------------------------------|-------------------------------------|----------------------------|-----------------|------------------------------------|--------------|--------------------------------|--|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

| Note 1: Comparison of Average internal and external charges with each other and with FAC | Non- discrimination | | | | Cost orientation | | | |
|--|---------------------|--------|------|-----------------------|-----------------------------|-----------------------------|------------------------------|----------------------|
| | Turnover £m | Volume | Unit | Average price £ | FAC (see Section 5) £ | Unaudite d LRIC Floor | Unaudited LRIC Ceiling | Average price/FAC |
| for the year ended 31 March 200x | | | | | | | | |
| Service | | | | | | | | |
| Main Service 1 Internal | | | | | | | | |
| - EOI input | | | | £(a) | £(a) | | | |
| - WBA Input | | | | £ | £ | X.XX | X.XX | X.XX |
| | £ | X | X | £ | £ | X.XX | X.XX | X.XX |
| Main Service 1 External | | | | | | | | |
| - EOI input | | | | £(a) | £(a) | | | |
| - WBA Input | | | | £ | £ | X.XX | X.XX | X.XX |
| | £ | X | X | £ | £ | X.XX | X.XX | X.XX |
| Main Service 2 Internal | | | | | | | | |
| - EOI input | | | | £(a) | £(a) | | | |
| - WBA Input | | | | £ | £ | X.XX | X.XX | X.XX |
| | £ | X | X | £ | £ | X.XX | X.XX | X.XX |
| Main Service 2 External | | | | | | | | |
| - EOI input | | | | £(a) | £(a) | | | |
| - WBA Input | | | | £ | £ | X.XX | X.XX | X.XX |
| | £ | X | X | £ | £ | X.XX | X.XX | X.XX |
| Provisions and other accounting adjustments | £ | | | | | | | |
| Unidentified immaterial services | £ | | | | | | | |
| Impact of differences between calculated and ledgered volumes | £ | | | | | | | |
| Other | £ | | | | | | | |
| | £ | | | | | | | |

Note

(a) EOI inputs (Average price and FAC) are derived from notional purchases of equivalent services provided externally from the WLA market.

BT and KCOM's regulatory financial reporting

Annex 11

AISBO 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)

Summary

| | Internal Sales £m | External Sales £m | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementar y depreciation £m | Other adjustments £m | Roundings £m | Total CCA operating costs £m | Return £m | Mean capital employed £m | Return on mean capital employed % |
|------|----------------------|----------------------|--------------------------------|--------------------------|---------------------------|------------------------------|--------------------------------------|----------------------------|-----------------|------------------------------------|--------------|--------------------------------|--|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| 200y | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

| | Non- discrimination | | | | | Cost orientation | | | | |
|--|-------------------------|-------------------------|----------------|--------|------|--------------------|-----------------------------------|------------------------------|-----------------------------------|----------------------|
| | Internal Sales £m | External Sales £m | Turnover £m | Volume | Unit | Average price £ | FAC (see Section 5) £ | Unaudited LRIC Floor £ | Unaudited LRIC Ceiling £ | Average price/FAC |
| for the year ended 31 March 200x | | | | | | | | | | |
| Service | | | | | | | | | | |
| <u>Wholesale Extension Services (WES)</u> | | | | | | | | | | |
| <u>Rental</u> | | | | | | | | | | |
| Internal WES 10 Mbits | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES 10 Mbits | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| Internal WES 100 Mbits | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES 100 Mbits | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| Internal WES 1000 Mbits | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES 1000 Mbits | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| Internal WES other bandwidth | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES other bandwidth | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| <u>Connection</u> | | | | | | | | | | |
| Internal WES 10 Mbits | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES 10 Mbits | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| Internal WES 100 Mbits | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES 100 Mbits | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| Internal WES 1000 Mbits | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES 1000 Mbits | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| Internal WES other bandwidth | £ | | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External WES other bandwidth | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| | | | | y | | | | | | |
| <u>Backhaul Extension Services (BES)</u> | | | | | | | | | | |
| <u>Rental</u> | | | | | | | | | | |
| External BES 100 Mbit/s | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External BES 1000 Mbit/s | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External BES other bandwidth | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| <u>Connection</u> | | | | | | | | | | |
| External BES | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External BES 100 Mbit/s | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External BES 1000 Mbit/s | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |
| External BES other bandwidth | | £ | £ | y | x | £ | £ | x.xx | x.xx | x.xx |

Ethernet Backhaul Direct (EBD)Rental

| | | | | | | | | |
|--------------------------|---|---|-----|---|---|------|------|------|
| External EBD 1000 Mbit/s | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
|--------------------------|---|---|-----|---|---|------|------|------|

Connection

| | | | | | | | | |
|--------------------------|---|---|-----|---|---|------|------|------|
| External EBD 1000 Mbit/s | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
|--------------------------|---|---|-----|---|---|------|------|------|

Ethernet Access Direct (EAD)Rental

| | | | | | | | | |
|----------------------------|---|---|-----|---|---|------|------|------|
| Internal EAD all bandwidth | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
| External EAD all bandwidth | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |

Connection

| | | | | | | | | |
|----------------------------|---|---|-----|---|---|------|------|------|
| Internal EAD all bandwidth | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
| External EAD all bandwidth | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |

Main LinkRental

| | | | | | | | | |
|----------------------------|---|---|-----|---|---|------|------|------|
| Internal Main Link charges | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
| External Main Link charges | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |

Backhaul Network Services (BNS)Rental

| | | | | | | | | |
|----------------------------|---|---|-----|---|---|------|------|------|
| External BNS all bandwidth | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
|----------------------------|---|---|-----|---|---|------|------|------|

Connection

| | | | | | | | | |
|----------------------------|---|---|-----|---|---|------|------|------|
| External BNS all bandwidth | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
|----------------------------|---|---|-----|---|---|------|------|------|

Other EthernetRental

| | | | | | | | | |
|---------------------------------------|---|---|------|------|---|------|------|------|
| Internal other ethernet all bandwidth | £ | £ | (ux) | (sx) | £ | x.xx | x.xx | x.xx |
| External other ethernet all bandwidth | £ | £ | (ux) | (sx) | £ | x.xx | x.xx | x.xx |

Connection

| | | | | | | | | |
|---------------------------------------|---|---|------|------|---|------|------|------|
| Internal other ethernet all bandwidth | £ | £ | (ux) | (sx) | £ | x.xx | x.xx | x.xx |
| External other ethernet all bandwidth | £ | £ | (ux) | (sx) | £ | x.xx | x.xx | x.xx |

Excess Construction Charges

| | | | | | | | | |
|--------------------------------------|---|---|------|------|---|------|------|------|
| Internal Excess Construction Charges | £ | £ | (ux) | (sx) | £ | x.xx | x.xx | x.xx |
| External Excess Construction Charges | £ | £ | (ux) | (sx) | £ | x.xx | x.xx | x.xx |

Other Services

| | | | | | | | | |
|--------------------|---|---|-----|---|---|------|------|------|
| Service 1 Internal | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
| Service 1 External | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |

| | | | | | | | | |
|--------------------|---|---|-----|---|---|------|------|------|
| Service 2 Internal | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |
| Service 2 External | £ | £ | y x | £ | £ | x.xx | x.xx | x.xx |

| | | |
|---|---|---|
| £ | £ | £ |
|---|---|---|

(sx) This service comprises a number of individual prices as indicated by the value of x
 (ux) This service comprises a number of individual volumetrics as indicated by the value of x

Key

Service which has amalgamated other services
 Service which has been amalgamated into other services
 New services reported in the year

underlined

Annex 11

Wholesale local access 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

Summary

| | Internal Sales £m | External Sales £m | Rounding £m | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementary depreciation £m | Other adjustments £m | Roundings £m | Total CCA operating costs £m | Return £m | Mean capital employed £m | Return on mean capital employed % |
|------|----------------------|----------------------|----------------|--------------------------------|-----------------------|------------------------|---------------------------|----------------------------------|-------------------------|-----------------|---------------------------------|--------------|-----------------------------|--------------------------------------|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| 200y | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

| | | | | Non-discrimination | | | | Cost orientation | | | |
|---|--|--|--|----------------------|----------------------|----------------|-------------|--------------------|-----------------------------|--|-------------------|
| | | | | Internal Sales £m | External Sales £m | Turnover £m | Volume Unit | Average price £ | FAC (see Section 5) £ | Indicative LRIC floors & ceilings as multiple of FAC | Average price/FAC |
| for the year ended 31 March 200x | | | | | | | | | | | |
| Service | | | | | | | | | | | |
| Service 1 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 1 External | | | | | £ | £ | x | £ | £ | x.xx | x.xx |
| Service 2 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 2 External | | | | | | | | | | | |
| etc | | | | | | | | | | | |
| Provisions and other accounting adjustments | | | | £ | £ | £ | | | | | |
| Unidentified immaterial services | | | | £ | £ | £ | | | | | |
| Impact of differences between calculated and ledgered volumes | | | | £ | £ | £ | | | | | |
| Other | | | | £ | £ | £ | | | | | |
| for the year ended 31 March 200y | | | | | | | | | | | |
| Service | | | | | | | | | | | |
| Service 1 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 1 External | | | | | £ | £ | x | £ | £ | x.xx | x.xx |
| Service 2 Internal | | | | £ | | £ | x | £ | £ | x.xx | x.xx |
| Service 2 External | | | | | | | | | | | |
| etc | | | | | | | | | | | |
| Provisions and other accounting adjustments | | | | £ | £ | £ | | | | | |
| Unidentified immaterial services | | | | £ | £ | £ | | | | | |
| Impact of differences between calculated and ledgered volumes | | | | £ | £ | £ | | | | | |
| Other | | | | £ | £ | £ | | | | | |

Annex 12

Market summary

Summary

[illegible]

Note 1: Comparison of average internal and external charges with each other

for the year ended 31 March 200x

Service

Service 1 Internal
Service 1 External

Service 2 Internal
Service 2 External
etc

Provisions and other accounting adjustments
Unidentified immaterial services
Impact of differences between calculated and ledgered volumes
Other

for the year ended 31 March 200y

Service

Service 1 Internal
Service 1 External

Service 2 Internal
Service 2 External
etc

Provisions and other accounting adjustments
Unidentified immaterial services
Impact of differences between calculated and ledgered volumes
Other

Non- discrimination

| Internal Sales £m | External Sales £m | Turnover £m | Volume Unit | Average price £ |
|----------------------|----------------------|----------------|-------------|--------------------|
| £ | £ | £ | x | £ |
| | | £ | x | £ |
| | | | - | |
| £ | | £ | x | £ |
| £ | £ | £ | | |
| £ | £ | £ | | |
| £ | £ | £ | | |
| £ | £ | £ | | |
| £ | £ | £ | | |

| Internal Sales £m | External Sales £m | Turnover £m | Volume Unit | Average price £ |
|----------------------|----------------------|----------------|-------------|--------------------|
| £ | | £ | x | £ |
| | £ | £ | x | £ |
| | | | - | |
| £ | | £ | x | £ |
| £ | £ | £ | | |
| £ | £ | £ | | |
| £ | £ | £ | | |
| £ | £ | £ | | |
| £ | £ | £ | | |

Annex 12

Single Transit on fixed public narrowband networks market summary

Summary

| | Turnover (see note 1) | | | Operating costs | | HCA | Holding | Supplementary | | Total CCA | | | Mean capital | Return on |
|------|--------------------------|----------------|----|-----------------|--------------|-------------|---------|---------------|-------|-----------|-----------------|--------|--------------|--------------|
| | Internal Sales | External Sales | £m | costs | Depreciation | (gain)/loss | | depreciation | Other | Roundings | operating costs | Return | employed | mean capital |
| | £m | £m | £m | £m | £m | £m | | £m | £m | £m | £m | £m | £m | employed |
| 200x | | £ | £ | £ | £ | £ | | £ | £ | £ | £ | £ | £ | % |
| 200y | | £ | £ | £ | £ | £ | | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of average internal and external charges with each other

Non- discrimination

| | Turnover | Volume | Unit | Average price |
|---|----------|--------|------|---------------|
| | £m | | | £ |
| for the year ended 31 March 200x | | | | |
| Service | | | | |
| Service 1 Internal | £ | | x | £ |
| Service 1 External | £ | | x | £ |
| | | | - | |
| Service 2 Internal | £ | | x | £ |
| Service 2 External | | | | |
| etc | | | | |
| Provisions and other accounting adjustments | £ | | | |
| Unidentified immaterial services | £ | | | |
| Impact of differences between calculated and ledgered volumes | £ | | | |
| Other | £ | | | |
| | £ | | | |
| | £ | | | |
| for the year ended 31 March 200y | | | | |
| Service | | | | |
| Service 1 Internal | £ | | x | £ |
| Service 1 External | £ | | x | £ |
| | | | - | |
| Service 2 Internal | £ | | x | £ |
| Service 2 External | | | | |
| etc | | | | |
| Provisions and other accounting adjustments | £ | | | |
| Unidentified immaterial services | £ | | | |
| Impact of differences between calculated and ledgered volumes | £ | | | |
| Other | £ | | | |
| | £ | | | |
| | £ | | | |

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

Summary

| | Internal Sales £m | External Sales £m | Rounding | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementary depreciation £m | Other adjustments £m | Roundings £m | Total CCA operatin g costs £m | Return £m | Mean capital employed £m | Return on mean capital employed % |
|------|----------------------|-------------------------|----------|--------------------------------|--------------------------|---------------------------|------------------------------|-------------------------------------|----------------------------|-----------------|---|--------------|--------------------------------|---|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| 200y | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

Non- discrimination

Cost orientation

| | | | | | | | | | | | | | | | NCC traffic minutes (mm) | | | | Average NCC rates (ppm) | | | | | Indicative floors & ceilings as multiple of FAC | Average price/FA C | | | | | |
|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--------------------------|----------------|----------|-----|-------------------------|---------|----------|-----|---------|---|--------------------------|-----|---|--------------------------|------|--|
| | | | | | | | | | | | | | | | Internal Sales | External Sales | Turnover | Day | Evening | Weekend | 24 hours | Day | Evening | Weekend | Weighted Average | FAC | | | | |
| | | | | | | | | | | | | | | | £m | £m | £m | | | | | ppm | ppm | ppm | ppm | ppm | | | | |
| for the year ended 31 March 200x Service | | | | | | | | | | | | | | | | | £ | m | m | m | m | | p | p | p | p p | | x-y | x.xx | |
| | | | | | | | | | | | | | | | £ | £ | £ | m | m | m | m | p | p | p | p p | | | | | |
| Service 2 | | | | | | | | | | | | | | | | | £ | m | m | m | m | | p | p | p | p p | | x-y | x.xx | |
| | | | | | | | | | | | | | | | £ | £ | £ | m | m | m | m | p | p | p | p p | | | | | |
| | | | | | | | | | | | | | | | £ | £ | £ | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | Internal Sales | External Sales | Turnover | Day | Evening | Weekend | 24 hours | Day | Evening | Weekend | Weighted Average | FAC | Indicative floors & ceilings as multiple of FAC | Average price/FA C | | |
| | | | | | | | | | | | | | | | £m | £m | £m | | | | | ppm | ppm | ppm | ppm | ppm | | | | |
| for the year ended 31 March 200y Service | | | | | | | | | | | | | | | | | £ | m | m | m | m | | p | p | p | p p | | x-y | x.xx | |
| | | | | | | | | | | | | | | | £ | £ | £ | m | m | m | m | p | p | p | p p | | | | | |
| Service 2 | | | | | | | | | | | | | | | | | £ | m | m | m | m | | p | p | p | p p | | x-y | x.xx | |
| | | | | | | | | | | | | | | | £ | £ | £ | m | m | m | m | p | p | p | p p | | | | | |
| | | | | | | | | | | | | | | | £ | £ | £ | | | | | | | | | | | | | |

Annex 13

Local tandem conveyance and transit on fixed public narrowband networks

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

Summary

| | Internal Sales £m | External Sales £m | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementary depreciation £m | Other adjustments £m | Roundings £m | Total CCA operating costs £m | Return £m | Mean capital employed £m | Return on mean capital employed % |
|------|----------------------|----------------------|-----------------------------|-----------------------|------------------------|---------------------------|----------------------------------|-------------------------|-----------------|---------------------------------|--------------|-----------------------------|--------------------------------------|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| 200y | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

Non-discrimination

Cost orientation

| | | | | | | | | | | | | | | Indicative floors-& ceilings-as- multiple-of- FAC | Average price/FAC |
|----------------------------------|---|----------|-----|---------|---------|-------------------------|-----|---------|---------|----------------------|-----|-----|------|---|----------------------|
| NCC traffic minutes (mm) | | | | | | Average NCC rates (ppm) | | | | | | | | | |
| | | Turnover | Day | Evening | Weekend | 24 hours | Day | Evening | Weekend | Weighted- Average | FAC | | | | |
| for the year ended 31 March 200x | | £m | | | | | ppm | ppm | ppm | ppm | ppm | | | | |
| Service | | | | | | | | | | | | | | | |
| Service 1 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| Service 1 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| Service 2 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| Service 2 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| | | £ | | | | | | | | | | | | | |
| | | £ | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | Indicative floors-& ceilings-as- multiple-of- FAC | Average price/FAC |
| | | | | | | | | | | | | | | | |
| | | Turnover | Day | Evening | Weekend | 24 hours | Day | Evening | Weekend | Weighted- Average | FAC | | | | |
| for the year ended 31 March 200y | | £m | | | | | ppm | ppm | ppm | ppm | ppm | | | | |
| Service | | | | | | | | | | | | | | | |
| Service 1 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| Service 1 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| Service 2 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| Service 2 | £ | m | m | m | m | m | p | p | p | p | p | x-y | x:xx | | |
| | | £ | | | | | | | | | | | | | |

Appendix 2 - Price Control Statements

This Appendix shows an extract from the most recent price control submissions to Ofcom to meet BT's price control obligations

Appendix 2.1 - Price Controls in Wholesale Markets (Annex24) (Unaudited)

Price Control summary of calls information submitted to Ofcom for the [year] basket yield submission to set [year] prices

| Basket | RPI between June [year] & June [year] | Charge Control | Controlling % | Actual Basket Yield |
|-------------------------|---|----------------|---------------|------------------------|
| Call Termination | | | | |
| Call Origination | | | | |
| Single Transit | | | | |
| Interconnect Specific | | | | |
| PPP Basket | | | | |
| Local Tandem Conveyance | | | | |

Price Control summary of PPC information submitted to Ofcom for the [year] basket yield submission to set [year] prices

| Basket | RPI between June [year] & June [year] | Charge Control | Controlling % | Actual Basket Yield |
|----------------|---|----------------|---------------|------------------------|
| Low Bandwidth | | | | |
| High Bandwidth | | | | |
| Equipment | | | | |

Price Control summary of WLR information submitted to Ofcom for the [year] financial Year

| Cap | Fixed Ceiling | Actual Price |
|------------------|---------------|--------------|
| WLR Basic Rental | | |
| WLR Transfer | | |
| WLR Connection | | |

Price Control summary of Wholesale Local Access information submitted to Ofcom for the [year] financial Year

| Cap | Fixed Ceiling | Actual Price |
|-------------|---------------|--------------|
| MPF Rental | | |
| SMPF Rental | | |

| Basket | Controlling % | Price Change |
|----------------|---------------|-----------------|
| MPF Ancillary | | |
| SMPF Ancillary | | |
| Co-Mingling | | |

| Sub Cap | Fixed Ceiling | Actual Price |
|------------------|---------------|--------------|
| MPF Transfer | | |
| MPF New Provides | | |
| SMPF Connection | | |

| Sub Cap | Controlling % | Price Change |
|------------|---------------|-----------------|
| MPF Cease | | |
| SMPF Cease | | |

Annex B

The form and content of the Regulatory Financial Statements set out in the Former FA10 Form and Content Direction shall be amended as shown below in that the words struck through are deleted.

Annex 11

Wholesale local access 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

Summary

| | Internal Sales £m | External Sales £m | Rounding £m | Turnover (see note 1) £m | Operating costs £m | HCA Depreciation £m | Holding (gain)/loss £m | Supplementary depreciation £m | Other adjustments £m | Roundings £m | Total CCA operating costs £m | Return £m | Mean capital employed £m | Return on mean capital employed |
|------|----------------------|----------------------|----------------|--------------------------------|-----------------------|------------------------|---------------------------|----------------------------------|-------------------------|-----------------|---------------------------------|--------------|-----------------------------|---------------------------------|
| 200x | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| 200y | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |

Note 1: Comparison of Average internal and external charges with each other and with FAC

| Note 1: Comparison of Average internal and external charges with each other and with FAC | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|
| Non- discrimination | | | | | | | | | |
| Cost orientation | | | | | | | | | |
| FAC (see Section 5) Indicative LRIC floors & ceilings as multiple of FAC | | | | | | | | | |
| Average price/FAC | | | | | | | | | |
| Internal Sales External Sales Turnover Volume Unit Average price | | | | | | | | | |
| £m £m £m £ £ | | | | | | | | | |
| for the year ended 31 March 200x | | | | | | | | | |
| Service | | | | | | | | | |
| Service 1 Internal £ £ x £ £ x.xx x.xx x.xx | | | | | | | | | |
| Service 1 External £ £ x £ £ x.xx x.xx x.xx | | | | | | | | | |
| Service 2 Internal £ £ x £ £ x.xx x.xx x.xx | | | | | | | | | |
| Service 2 External | | | | | | | | | |
| etc | | | | | | | | | |
| Provisions and other accounting adjustments £ £ £ | | | | | | | | | |
| Unidentified immaterial services £ £ £ | | | | | | | | | |
| Impact of differences between calculated and ledgered volumes £ £ £ | | | | | | | | | |
| Other £ £ £ | | | | | | | | | |
| £ £ £ | | | | | | | | | |
| for the year ended 31 March 200y | | | | | | | | | |
| Service | | | | | | | | | |
| Service 1 Internal £ £ x £ £ x.xx x.xx x.xx | | | | | | | | | |
| Service 1 External £ £ x £ £ x.xx x.xx x.xx | | | | | | | | | |
| Service 2 Internal £ £ x £ £ x.xx x.xx x.xx | | | | | | | | | |
| Service 2 External | | | | | | | | | |
| etc | | | | | | | | | |
| Provisions and other accounting adjustments £ £ £ | | | | | | | | | |
| Unidentified immaterial services £ £ £ | | | | | | | | | |
| Impact of differences between calculated and ledgered volumes £ £ £ | | | | | | | | | |
| Other £ £ £ | | | | | | | | | |
| £ £ £ | | | | | | | | | |

Annex C

The Additional Information set out in Annex 26 to Direction 4 shall be amended in such a way that the words underlined are added and describe further additional financial information BT must provide.

Annex 26

Additional information by way of notes

| Reference | Additional Financial Information | Description | Purpose (AS, CA or Reconciliation) |
|-----------------------|--|--|---|
| <u>AI - 28</u> | <p><u>Disclosure of NTS Retail Uplift and PRS Bad Debt Surcharge service information in the form of an AFI Schedule</u></p> <p><u>The Basis of Preparation will also be provided.</u></p> <p><u>The information is to be published at the same time as BT's RFS.</u></p> | <p><u>1) AFI Schedule</u></p> <p><u>The schedule will detail volumes (internal and external), turnover and cost information consistent with the proposed basis of preparation of base year information used by Ofcom to set the NTS Retail uplift charge control. This will be publically available.</u></p> <p><u>2) Description of basis of preparation</u></p> <p><u>This basis of preparation will be consistent with the primary accounting documents which include, for example, the regulatory accounting principles of cost causality and objectivity.</u></p> <p><u>3) Audit Review: "Agreed upon Procedures"</u></p> <p><u>If requested by Ofcom, BT will procure a report from its independent auditors under the "Agreed upon Procedures" process as set out in the Tripartite Agreement.</u></p> | <u>AS & CA</u> |