Annex 7

FRIACO adjustment ratio revision

Revision of the value of the Adjustment Ratio for DLE FRIACO

Introduction

- A7.1 Flat Rate internet Access Call Origination (FRIACO) is an unmetered interconnection service available from BT that is used by other Communications Providers to be able to provide unmetered narrowband internet access services.
- A7.2 The Adjustment Ratio (AR) is used in the derivation of the regulated charges for FRIACO and captures the average number of Local Exchange Call Origination (LECO) circuits per FRIACO port. The average number of LECO circuits required can be measured by the ratio of the Erlangs Per Circuit (EPC) of FRIACO ports to the EPC of FRIACO circuits.
- A7.3 The charge for DLE FRIACO is as follows:

Charge for FRIACO (\pounds /circuit) = Cost of the LECO circuit (excluding FRIACO port) × AR + cost of the FRIACO port + PPP

A7.4 Since each FRIACO port may use more than one LECO circuit, the AR measures how many such circuits are required per FRIACO port to meet the demand for FRIACO. The AR therefore recovers the true cost of providing LECO circuits from FRIACO users, unlike metered internet access, where users pay LECO charges on a pence per minute basis.

Background to the November 2004 Statement

- A7.5 Ofcom published its Final Statement on the Review of the Adjustment Ratio for DLE FRIACO in November 2004 "(the November 2004 Statement"). In that Statement, Ofcom decided that no change was required to the value of the AR (ie, it should remain at its previous value of 1.78), but stated that this value would be reviewed during the Review of the NCC. This was because, at the time of the November 2004 Statement, Ofcom was calculating the AR based on a set of data that had only recently been available, and was a sparse data set. However, Ofcom stated that it would request BT to provide more information going forward such that the value of the AR could be assessed against a longer time series data.
- A7.6 Briefly, the methodology for calculating the AR for DLE FRIACO is:

EPC of FRIACO ports in the Network Busy Hour EPC of LECO circuits in the Network Busy Hour

The Network Busy Hour (NBH) is determined as the hour that has sustained the highest overall level of traffic that is used to dimension the network (i.e. traffic data measured in a 15 minute period is aggregated and the hour with the highest aggregate traffic in four consecutive 15 minute periods is the Network Busy Hour). A7.7 Based on information provided by BT for certain days from February to August 2004, Ofcom determined in the November 2004 Statement, the NBH, the EPC of LECO circuits in that BH, and the EPC of FRIACO ports in that BH, for each day. Since there were 13 data points available for the calculation of a single value of the AR, Ofcom used several different methods of using the above data to calculate a single AR. The range of values that these methods provided was between 1.66 – 1.88. Since there was no compelling reason to choose any of the values within the above range, Ofcom stated that the then current value of 1.78 was reasonable to use going forward, and that it provided certainty and facilitated business planning.

Calculations of the AR for the NCCs

A7.8 For the preparation of the NCCs, Ofcom requested BT to provide similar information for a day within each fortnight in the months September 2004 – January 2005 to add to the data set that BT had provided to Ofcom during the preparation of the November 2004 Statement. BT has since provided 9 more data points. Based on the analysis of BT's data, the LECO EPC and FRIACO EPC for the different days are provided in Table A7.1. Ofcom has used the same four methods as was used in the November 2004 Statement to calculate the value of the Adjustment Ratio. These methods are explained below.

		FRIACO data			
	Network peak (15 min period beginning)	BH calculation	Network peak falls within BH -Yes (Y), No (N)	EPC for the BH	EPC for the BH
02-Feb	18.45	18:30-19:30	Y	0.3433	0.7421
09-Feb	19.00	18:30-19:30	Y	0.3389	0.7213
23-Feb	18.45	18:30-19:30	Y	0.3310	0.7054
29-Mar	21.00	16:00-17:00	Ν	0.3153	0.5838
10-May	21.00	16:00-17:00	Ν	0.3084	0.5294
17-May	21.00	10:00-11:00	N	0.2962	0.3687
24-May	21:00	20:45-21:45	Y	0.3071	0.7066
02-Aug	10.30	10:15-11:15	Y	0.2998	0.3747
03-Aug	10.30	10:15-11:15	Y	0.2877	0.3798
04-Aug	10.15	10:15-11:15	Y	0.2827	0.3650
09-Aug	11.00	10:45-11:45	Y	0.3102	0.4153
10-Aug	11.00	10:15-11:15	Y	0.3051	0.4004
11-Aug	11.00	10:15-11:15	Y	0.2807	0.3579
06-Sep	10.30	10:15-11:15	Y	0.3039	0.3237
20-Sep	16.15	15:45-16:45	Y	0.3023	0.4367
04-Oct	16.15	10:15-11:15	N	0.3023	0.3174
18-Oct	21.00	16:00-17:00	N	0.2930	0.4315
01-Nov	18.45	18:30-19:30	Y	0.3052	0.5562
22-Nov	16.15	15:45-16:45	Y	0.3049	0.4347
13-Dec	16.15	18:30-19:30	N	0.2959	0.5360
20-Dec	10.15	10:00-11:00	Y	0.2861	0.2803
17-Jan	16.15	15:45-16:45	Y	0.3065	0.4581

Table A7.1 LECO EPCs and FRIACO EPCs

Method	LECO EPC	FRIACO EPC	AR (figures in brackets are shown with "mark-ups" ¹)	Brief Comments – further explanation in the following text
 Simple average of all days 	0.305	0.474	1.56 [1.58]	Each day is accorded equal weight
 Average of the monthly averages 	0.306	0.482	1.58 [1.60]	A monthly average is calculated and an equal weight is accorded to each monthly average
3 . Weighted averages of the monthly averages	0.306	0.487	1.59 [1.62]	Weights depend on the number of such months in a year for which traffic patterns are assumed to be similar to those where data is available. March/April – 2 months, May/June – 2 months, Jul/Aug – 2 months
4 . Weighted average of the period (am,pm,eve) averages			1.74 [1.77]	An average of the EPCs from days that have a busy hour in the same period is calculated; this average is used to calculate period-wise ARs. These ARs are then weighted to obtain a single AR. The weights are the percentage of LECO traffic in each time of day (weights may not add up to 1)

Table A7.2 Calculations of the Adjustment Ratio

Explanation of the calculations

Method 1

A7.9 The first method is a simple average of all the days for which information was obtained. As discussed in the November 2004 Statement, this method carries the risk of treating each day as if it was potentially a day on which investment decisions with respect to network dimensioning are made. In particular, since there are more data points in August, this month is given a larger weight relative to March or January which are the months in which it is more likely that network dimensioning would take place.

Method 2

A7.10 The second method involves the calculation of an average EPC for each month and then accords equal weights to each of the months in order to calculate the AR. In the November 2004 Statement, Ofcom stated that although this approach was reasonable, it did not take into account the effect of seasonality across the year given that the information available at that time was only fro a limited number of months during the year. Ofcom has now obtained updated data for both winter and summer and it could be argued that the impact of seasonality is therefore taken into account to a greater extent than was possible for the November 2004 Statement.

¹ BT stated that the data provided on the number of FRIACO ports in service may contain ports that are in the process of being provisioned or ceased. As in the November 2004 Statement, Ofcom has applied a 1.7% increase as mark-up to the FRIACO EPC to adjust for such data.

Method 3

- A7.11 Method 3 calculates the AR as a weighted average of the monthly average EPCs used above. As in the November 2004 Statement, weights have been given to reflect that months that are likely to have similar traffic profiles are assumed to have the same EPC. This is done by assuming that certain months for which data is available have higher weights:
 - March LECO and FRIACO EPC is accorded a weight of 2/12 because it has the closest traffic profile to April (for which no data is available) for both LECO and FRIACO
 - May average LECO and FRIACO EPC is accorded a weight of 2/12 because it has the closest traffic profile to June (for which data is not available) for both LECO and FRIACO
 - August average LECO and FRIACO EPC is accorded a weight of 2/12 because it has the closet traffic profile to July (for which data is not available) for both LECO and FRIACO

Method 4

A7.12 This method uses a calculation similar to the so-called more complex methodology (see

www.ofcom.org.uk/consultations/past/dle_friaco/statement/DLE_FRIACO). The more complex methodology considers the coincidence between FRIACO traffic on LECOs at times of day when those particular LECOs are experiencing their individual busy hours i.e. morning, afternoon and evening. When LECOs are outside their individual busy hours, no additional capacity is needed to serve FRIACO traffic.

A7.13 The complex methodology calculation is based on the EPC of only those circuits that are actually busy in the morning, afternoon or evening. The EPCs that are used here are the average of all circuits whose aggregate traffic shows a morning, afternoon or evening busy hour, irrespective of whether each individual circuit's busy hour coincides with the network wide busy hour. This is only attempted as a reasonable proxy. To understand whether this proxy might be reasonable, the following table illustrate the EPCs of those circuits that have individual busy hours with the average EPC of the network in each of morning, afternoon and evening busy hours.

	Morning BH EPCs of circuits having a morning BH	Afternoon BH EPCs of circuits having an afternoon BH	Evening BH EPCs of circuits having evening BH
Jun-02	0.293	0.275	0.439
Oct-02	0.317	0.304	0.463
Mar-03	0.311	0.303	0.472
Jun-03	0.299	0.269	0.447
Oct-03	0.301	0.289	0.454

Table A7.3 BH EPCs of circuits in individual BHs

Table A7.4	BH EPCs of all circuits	(used in Method 4)
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Morning BH EPC	0.296
Afternoon BH EPC	0.305
Evening BH EPC	0.320

- A7.14 A comparison of the tables above shows that, the morning and evening busy hour EPCs used in Method 4 (and shown in Table A7.4) are in general, lower than the morning and evening busy hour EPCs provided for all the months in Table A7.3. This could mean that that Method 4 would result in an underestimate of the average EPC compared to the true EPC relevant to the complex methodology. Any understatement of the LECO EPCs would mean that the Adjustment Ratio is overstated. Ofcom commented in the consultation document that, on the other hand, it is possible that LECO EPCs may fall further as traffic on the narrowband network moves to broadband and mobile originated services and this would mean that LECO EPCs are overstated. Given the uncertainty regarding the use of LECO circuits (particularly in view of the fact that BT has plans to close down some DLEs), it is unclear whether this Method might overstate or understate the Adjustment Ratio.
- A7.15 Each of these figures in Table A7.4, divided by the average of all of them, is multiplied by with the percentage of concentrators having busy hours in the morning, afternoon and evening periods 30%, 16% and 54% respectively². The percentage of concentrators is used a proxy of the percentage share of circuits. This calculation provides an estimation of the percentage of total busy hour traffic that originates on LECO circuits that have a morning, afternoon or evening busy hour. These percentages are used as the relevant weights to be applied to the LECO and FRIACO EPCs to estimate the AR.

The range of possible values of the AR

- A7.16 The November Statement discussed that within the range of 1.66-1.91 resulting from the application of the above four methods to the data available at that time, there was no compelling reason to choose any particular value over the current value of 1.78 and therefore 1.78 was a reasonable value as it was within the range.
- A7.17 The current range of values calculated for the consultation document by applying the above four methods to the most recently available data is now a lower range of 1.56 -1.74. This is because, although more data has become available especially for the winter months, the network busy hour has not coincided with the hour that FRIACO traffic would have been highest during the day. Indeed, in many cases the Network Busy Hour has been in the afternoon or morning, both periods when FRIACO usage is lower relative to the evening.
- A7.18 One of the aims of Ofcom in setting the Adjustment Ratio is to ensure stability in the charge. This is the reason Ofcom has chosen to consider the mature usage of FRIACO. In past Statements, the mature usage has been considered to be the point where FRIACO traffic would have stabilised and there were no major shifts

² This information on the percentage of concentrators was provided by BT for the November 2004 Statement and reflects BT data for selected months of 2002, 2003 and 2004. Ofcom has no reason to believe that this likely to change significantly over the coming years.

in such traffic. However, with the increasing take-up of broadband, total FRIACO traffic is declining and is likely to do so further. If such developments are not taken into account, it could be argued that the AR carries the risk that it overestimates the investment required in LECO circuits to meet FRIACO demand. Indeed, with the reduction in overall network traffic, it could be said that there is more capacity than earlier to meet FRIACO demand.

- A7.19 However, it is not the aggregate level of FRIACO traffic that is important for the AR, but the usage of FRIACO ports through which that traffic is flowing. Even if FRIACO traffic declines, there may be little effect on FRIACO EPCs if the volume of ports used was adjusted accordingly.
- A7.20 To understand if this is the case, the following figures compare the EPCs on those days that have a busy hour at similar times (morning, afternoon or evening).







Figure 2: Comparison of FRIACO traffic data between days when Network BH is in the afternoon

NBH: 29 Mar - 16:00-17:00 20 Sep - 15:45-16:45 22 Nov - 15:45-16:45 17 Jan - 15:45-16:45



Figure 3: Comparison of FRIACO traffic data between days with Network BH is in the evening

A7.21 The above figures show that not only has FRIACO traffic reduced between February 2004 and November/December 2004 (both of which are winter months), but the average EPCs have reduced as well. This explains why the range of ARs calculated now is lower than the range calculated in the November 2004 Statement. It is unclear if this is a seasonal effect or whether such patterns of falling traffic and falling EPCs are likely to continue; and if so, whether the stable level of the AR going forward should be chosen from within the range rather than from the extremities of the range.

A7.22 Ofcom is of the view (a view that BT concurs with) that FRIACO traffic is likely to reduce further during the next NCCs. It is also likely that overall network traffic on the PSTN network will reduce as mobile traffic increases. While it is unclear if these issues imply that the EPCs of FRIACO ports and LECO circuits will fall, this effect needs to be taken into consideration.

Proposed value of the Adjustment ratio

A7.23 In the consultation document Ofcom presented the view that either Method 3 or Method 4 provides a reasonable estimate of the value of the AR. Hence Ofcom proposed as the value a midpoint between the values of 1.59 and 1.77, rounded to the first decimal for the AR. **This value is 1.70**³.

Reviewing the Adjustment Ratio in the NCC

- A7.24 Prior to the November Statement, BT suggested that in place of periodic reviews by Ofcom, BT could set the value of the AR each year in accordance with the method specified by Ofcom.
- A7.25 Ofcom considers that, because there is still a significant degree of judgement (as outlined above) in determining the appropriate value of the AR, it is more suitable for Ofcom to set the value rather than BT. However, Ofcom considered in the consultation document whether a periodic review of the AR by Ofcom is needed and if so, the appropriate frequency of the review. Ofcom was of the view that it now had a more complete data set on which to base the value of the AR than in November 2004, and that the value of the AR it was proposing (i.e. 1.7) reflected the best estimate of the AR using a reasonably lengthy time series of data. Therefore there could be a case that the value of the AR does not need to be reviewed through the period of the NCC and a review will only be necessitated if there is a review of the relevant market. This provides stability and sustainability in the charge.
- A7.26 However, the most recent data shows that both LECO EPCs and FRIACO EPCs have fallen through the different months of the year. Since similarly measured data cannot be compared to previous years (data was not stored historically), it is difficult to judge if this is an effect of seasonality or a general downward trend. Given this uncertainty, the consultation document stated that it could be argued that the FRIACO AR needs to be reviewed periodically, the period of review perhaps being annual.
- A7.27 Ofcom therefore consulted (see Section 6) on whether the value of the AR can be left constant throughout the duration of the NCC or whether it needs to be reviewed periodically.

³ Although in previous Determinations and Statements Ofcom has stated the AR at two decimal points, given the similar probability that either method 3 or 4 may produce an appropriate result, Ofcom has widened the range to 1.6-1.80 and chosen a midpoint between the two as 1.70.

ST FRIACO

- A7.28 The current value of the AR (LECO) is 2 and AR (LT) is 1.19. These values were set on the basis of the methodology and data provided for Oftel's February 2001 Direction on ST FRIACO. In the November 2004 Statement, Ofcom explained that it was not possible to review these values as there had been very limited take-up of ST FRIACO and traffic had not reached a mature or stable level. Ofcom however indicated that the review of the NCCs would be an appropriate time to consider if the values of the AR for ST FRIACO should be evaluated again.
- A7.29 Ofcom has obtained data from BT that shows that there continues to be very little take-up of ST FRIACO. The highest traffic on L-T routes for ST FRIACO was 1142 erlangs (in April 2004) and constituted about 1% of the DLE traffic at that time. Since then the traffic level has reduced further and the number of operators, the number of routes and the total traffic in relation to ST FRIACO are all very small.
- A7.30 Ofcom is of the view that this low level of traffic data cannot provide sufficient evidence to suggest that either the methodology or the value of the ARs for ST FRIACO should be changed. In the absence of any conclusive evidence to the contrary, Ofcom believes that it is still appropriate to retain the current values.

Responses to the Consultation and Ofcom's views

Question: Does the adjustment ratio for DLE FRIACO need to be reviewed annually or should it be fixed at the proposed value for the duration of the charge control?

- A7.31 BT responded that it does not believe that Ofcom should be micro managing a product that may possibly be withdrawn before the end of the next charge control because of limited demand from operators who are moving in to offer broadband services. Once the adjustment ratio review is completed, a safeguard cap approach would allow more flexibility to agree sensible migration paths with wholesale customers along with an appropriate path to product withdrawal. Reviewing the adjustment ratio intermittently and changing the methodology would create uncertainty. This should either be the last adjustment ratio review or it should be done at predetermined levels using a method that does not change.
- A7.32 BT also stated that the method closest to BT's view of how the calculation should be done is Ofcom's Method 4. It is noticeable that this method does not support a reduction in the ratio. BT also stated that Ofcom has applied an uplift of 1.7% to the adjustment ratio because the EPCs is based on information on the number of ports in recorded in service, even though some of them may have been ceased. Given that the number of ports is in rapid decline, this uplift should now be higher, and by using 1.7%, Ofcom may be underestimating the adjustment ratio.
- A7.33 Energis expressed the view that the proposed value of the adjustment ratio is still high; Method 4 overstates the adjustment ratio and should not be included. They referred to the argument made by Ofcom that although there is a risk that Method 4 may overstate the AR, it is possible that the migration to broadband and mobile origination might reduce the LECO EPCs, in which case method 4

might not be an overstatement. Energis was of the view that this argument is flawed because:

- the move to broadband would reduce the FRIACO EPCs more than LECO EPCs because the decline in unmetered narrowband services is quicker than metered and would reduce the adjustment ratio; and
- the switch to mobile has slowed significantly and therefore the expected change to LECO EPCs is likely to be less significant now than previously. Hence the historical LECO EPCs should be considered as the stable basis.
- A7.34 Energis stated that if the above two assumptions are correct, Ofcom's justification for Method 4 is flawed. It claimed that Method 4 represents an outlier figure, and that if there are any doubts on the assumptions behind Method 4, then this method should be discounted and the average of the other methods should be used to calculate an adjustment ratio of 1.60.
- A7.35 Energis reiterated its view that BT should be required to retrospectively apply the resultant change to the AR back to November 2004, because Ofcom stated in the consultation that the additional information received from BT has increased Ofcom's confidence in understanding the true AR position by narrowing down the possibilities within the original range considered. Energis stated also that since this is not due to changes in traffic over time, the AR should be applied retrospectively.
- A7.36 Energis stated that if Ofcom accepted Energis' arguments in relation to the value of the AR, and agreed to apply it restrospectively, it would support a move that fixed the value of the adjustment ratio at a level of 1.60 for the duration of the NCCs. UKCTA's views matched those of Energis, except that UKCTA did not propose retrospective application of the new AR.
- A7.37 C&W responded by saying that they did not believe that there is a compelling justification for annual reviews because it is unlikely that the underlying cost of FRIACO will decrease in the future, given the migration to broadband. Hence there is no need to review the charge on the grounds of consumer protection. Additionally, a future review would carry the risk that the source data could be skewed by the move towards 21CN, and if this risk was not manageable then a future review would not be practicable.

Ofcom's views

The value of the AR for DLE FRIACO

- A7.38 Ofcom explained in the consultation that either Method 3 or Method 4 provides a reasonable estimate of the value of the AR and without a strong reason to choose any individual method, Ofcom was proposing the midpoint between Method 3 and Method 4.
- A7.39 BT has provided no strong reason why it believes that Method 4 is more appropriate. BT also stated that the uplift of 1.7% applied by Ofcom should be higher because the total number of FRIACO ports is in decline. But BT has not provided any evidence to support this statement that Ofcom can consider further in the preparation of this Statement.

- A7.40 Energis' view is that the move to broadband would reduce the FRIACO EPCs more than LECO EPCs because broadband is replacing FRIACO. The other point that Energis makes is that the switch to mobile origination has slowed significantly and the expected change in LECO EPCs is not likely to occur and hence historical EPCs should be considered.
- A7.41 Ofcom's view is that it is useful to discuss two separate points regarding the use of Method 4 in the adjustment ratio:
 - (a) Based on the available data, Method 4 can be regarded as reasonable; however Method 4 should not be the sole basis for the determination of the adjustment ratio because Method 4 may also overstate or understate the LECO EPCs. The LECO EPCs used in the analysis may be lower than the LECO EPCs that would result from only those circuits that busy in the morning, afternoon or evening (i.e. those resulting from the complex methodology, as shown in Table 4). On the hand, since the EPC figures used in the analysis include erlangs from LECO circuits that are outside their busy hours as well, at least some of the LECO EPCs may be overstated. For instance. BT says that only 16% of concentrators have a busy hour in the afternoon, but the total erlangs in the afternoon is higher than that in the morning (when 30% of concentrators have a busy hour), thereby leading to a higher afternoon EPC figure. If the erlangs of only the 16% of concentrators was considered, the EPC may have been lower. Therefore, it is unclear if Method 4 would understate or overstate the adjustment ratio relative to the complex methodology.
 - (b) Looking forward, it is even more unclear what LECO EPCs and FRIACO EPCs might result. Ofcom discussed that the move to broadband and mobile origination might well reduce the true LECO EPCs. Energis' view is that with the move to broadband, FRIACO EPCs are likely to reduce faster than LECO EPCs might be valid, as indeed might be the impact of mobile origination. Given that prediction of LECO EPCs is difficult, Ofcom proposed in the consultation that the value of the adjustment ratio be reviewed again within the charge control period.
- A7.42 Energis has also made the argument that since the proposed value of the AR at 1.7 has reduced from the current value of 1.78, mainly due to Ofcom's increased understanding from new information and not due to a change in traffic patterns, the value of the AR should be set retrospectively to November 2004.
- A7.43 Ofcom's proposed value of the AR in the Consultation was based on a more complete set of data⁴ than the data set used in the Statement in November 2004⁵. To that extent, the increased information takes into account Ofcom's better understanding of the market through observing the change in traffic patterns such as seasonality and the reduction in total traffic within the same season (see Figure 3 for the difference in total traffic between February 2004 and December 2004, both constituting the same winter season, but in consecutive winter years). Ofcom sees no justification for applying the value of the AR retrospectively when the value of the AR is clearly based on the changing traffic profile.

⁴ using additional information for the months of September, October, November, December 2004 and January 2005

 $^{^{5}}$ which only used data for some months from February to August 2004.

A7.44 In setting the value of the adjustment ratio, Ofcom is striking a balance between its objectives of certainty and stability in the charge and cost causality, both of which it regards as being relevant. Ofcom has adopted a consistent and reasonable approach to striking this balance by periodically reviewing the AR, but not applying any charge changes retrospectively. Ofcom considers that such an approach is still justified.

Conclusion on the value of the AR

- A7.45 Ofcom is of the view that it has received no evidence nor has it received sufficiently robust arguments for changing the value of the AR proposed in the consultation. During the preparation of this Statement, BT has provided information on the EPCs for LECO circuits and FRIACO ports for two days in May 2005. Ofcom has considered this information along with the existing information and has found that the inclusion of a few more days in May does not significantly change the value of the AR.
- A7.46 Ofcom concludes that given the evidence available, the AR for DLE FRIACO should be set at a value of 1.7 when the new charge controls take effect.
- A7.47 Ofcom has received no further evidence or discussion on the value of the AR for ST FRIACO. Hence, Ofcom concludes that the value of the AR (LECO) for ST FRIACO should be set at 1.19, and that for AR(LT) for ST FRIACO should be set at 2 when the new charge controls take effect.

Reviewing the value of the AR for DLE FRIACO

- A7.48 Ofcom's objectives in setting a value for the adjustment ratio have always been to achieve a trade-off between certainty and stability in the charge on the one hand, and cost causality on the other. In the early days of FRIACO when the market was growing, there was a risk that certainty and stability might be undermined if the value only reflected current EPCs and did not reflect the growing trend. This was the reason that a mature EPC level for FRIACO was used, but was reviewed periodically to ensure that the value of the adjustment ratio still met the objective of cost causality.
- A7.49 Over time however, the FRIACO market has not only stabilised but is in decline as retail consumers (and FRIACO purchasers) move to broadband services. Therefore, while stability and certainty remain important for business planning, they no longer carry the weight they did before. At the same time, Ofcom has access to more and better information on the pattern of FRIACO traffic relative to LECO traffic. This means that the risk that the AR might not be cost causal or not reflect cost causality in the future is lower. In making a decision on whether to periodically review the adjustment ratio or fix a charge for the duration of the control, Ofcom has considered the risk, however small, in fixing a value that might not reflect changing traffic patterns.
- A7.50 Ofcom discussed in the consultation that LECO EPCs and FRIACO EPCs have fallen over 2004/05; but since no comparator of the busy hour EPCs was available for previous years, it was difficult to conclude whether this was due to seasonality or due to the changing traffic patterns.
- A7.51 Given that this still remains the case during the preparation of this Statement, Ofcom is of the view that fixing the value of the AR for DLE FRIACO throughout the charge control may be premature and might still carry the risk of not reflecting

cost causality if a significant fall in FRIACO traffic means that a lower value of the AR is appropriate. Ofcom also does not agree with UKCTA's point that the move to 21CN would result in skewed data. The reduction in FRIACO demand is more likely to be a result of a shift of retail demand towards broadband than due to a move to 21CN, and in that respect, is not likely to be skewed.

- A7.52 Ofcom believes that it does not require significant management or oversight in order to conduct an annual review of the adjustment ratio, as long as BT is able to furnish the required data.
- A7.53 Ofcom concludes that it is proportionate to review the value of the adjustment ratio at a future date, probably not before Autumn 2006, depending on market conditions, the volume of FRIACO traffic and any evidence of significant changes in EPCs. Any decision to fix the value would be taken after a review of the data at that point.