Directions for Regulatory Financial Reporting

Submission by BT

27 January 2015

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Summary/introduction

1. Ofcom seeks to set a clear direction with the proposed "Directions for Regulatory Financial Reporting", published on 10 December 2014 ("Consultation Document"). However, we think there are a number of significant problems with Ofcom's proposals.
2. In Ofcom's 20 May 2014 Regulatory Financial Reporting Statement, Ofcom explained that one of its objectives was "aligning the published regulatory financial statements with regulatory decisions".[1]
3. Ofcom's proposals for the methodology changes to BT's Regulatory Financial Statements ("RFS") are intended to reflect their regulatory decisions in the Fixed Access ("FA") and Wholesale Broadband Access ("WBA") market reviews. We agree that it will be impractical to estimate the impact of reverting to the 2011/12 attribution bases for either the RFS or the Adjusted Financial Performance Schedule.
4. However, we disagree with Ofcom on four specific adjustments:
    i. the proposed exclusion of the steady state adjustment on the ISDN2 and ISDN30 services. We believe that this is an inconsistent treatment of asset values compared with Line Cards;
    ii. the exclusion of "other CCA adjustments" from the Adjusted Financial Performance Schedules. We believe that these costs are genuine costs and form part of the total cost under Current Cost Accounting ("CCA") principles;
    iii. the rejection of the use of future benefits as an appropriate methodology in all cases. We believe that in some circumstances future benefits methodology will be the most appropriate methodology and its use should be justified on a case-by-case basis; and
    iv. the voluntary extension of Ofcom's proposed methodologies to other markets outside the FA and WBA markets. We believe that any extension of Ofcom's proposed methodologies into other markets should be assessed on a case-by-case basis to determine whether the application is appropriate.
5. We also disagree with how Ofcom proposes to report BT's regulatory results requiring both the RFS and a new Adjusted Financial Performance Schedule to be produced. We believe that if changes are to be made to the RFS to reflect the "consistency with regulatory decisions" principle, these changes should align with all material regulatory decisions made in market reviews, and include all material adjustments made by Ofcom in setting charge controls. At present, Ofcom's proposals do not meet this consistency requirement.
6. Our preference is that the significant[2] adjustments that Ofcom has proposed to be included within the Adjusted Financial Performance Schedule should be within the RFS, so this

[1] Ofcom "Regulatory Financial Reporting Final Statement" 20 May 2014 Para 1.11.
[2] Significant adjustments would exclude those adjustments that attribute costs within a market.

additional schedule is no longer required. This would benefit stakeholders by avoiding confusion as to the right level of profitability shown within the market. The current proposal for two published sets of returns would mislead stakeholders. It would also avoid the unnecessary burden for BT to produce two views of market returns.

7. In the alternative, there could be a role for an Adjusted Financial Performance Schedule subject to the following changes. The RFS should report BT's incurred costs on a basis consistent with all of Ofcom's attribution methodologies. The Adjusted Financial Performance Schedule would then overlay *all* of Ofcom's valuation adjustments.[3]

8. With Ofcom setting the cost methodologies, and the RFS reflecting Ofcom's past regulatory decisions, the RFS is no longer BT's view of fully allocated CCA costs. Moreover, it is important to remember that the RFS is only a starting point for setting future charge controls.

9. It is important that inclusion in the RFS (or the Adjusted Financial Performance Schedule) of Ofcom's methodologies and valuation adjustments reflecting Ofcom's regulatory decisions, does not imply BT's endorsement of these approaches and therefore cannot prevent BT from challenging these methodologies and adjustments, for example in the context of future charge controls.

10. The Consultation Document also includes Ofcom's proposals on disclosure on Virtual Unbundled Local Access ("VULA") and Electricity. In BT's view, the disclosure of revenue, volume, price and FAC information should only relate to VULA migrations, because this is the only charge controlled VULA service within the WLA market. VULA in total should be within the WLA market, but not separately disclosed. We understand that this is Ofcom's intention.

[3] Regulatory Asset Value ("RAV"), Hypothetical On-going Network ("HON"), WLR line card, ISDN30 and ISDN2 steady state adjustments.

Section 3 – The need for consistency and additional reporting

Question 3.1: Do you agree with our proposals to give stakeholders a better understanding of BT's Financial Performance?

Need for additional Adjusted Financial Performance Schedules

11. Ofcom's proposals are for additional schedules for each regulatory market to show the effect of regulatory adjustments from the level of costs shown in the RFS. A schedule at the market review level would be published (Schedule 1), with a more detailed version provided to Ofcom (Schedule 2). Ofcom suggests in paragraph 3.24 that by providing increasing transparency the additional schedules will ultimately promote competition.

12. It is our understanding that what Ofcom is seeking to achieve is to allow the reader to use the RFS to assess BT's performance at a market level against the charge controls decisions made by Ofcom. In general this means incorporating Ofcom's cost and price adjustments in the financial statements. Ofcom proposes that certain Ofcom's adjustments are made within the RFS and other Ofcom's adjustments within an Adjusted Financial Performance Schedule.

13. Ofcom justifies its decision to exclude certain methodologies from the RFS in that these adjustments may not strictly reflect BT's costs and / or may require BT to make finely balanced judgements about how to treat these costs. We appreciate Ofcom's concerns but struggle to find a strong thread of consistency or balance in the adjustments Ofcom has proposed to apply and those it has decided should not apply.

14. For example, Ofcom has decided to revalue BT's copper and duct network on a Regulatory Asset Value ("RAV") basis and that this valuation is appropriate for the RFS. A similar valuation change on WLR line cards is considered by Ofcom appropriate for inclusion in the Adjusted Financial Performance Schedule, but not in the RFS. Application of a steady state adjustment in relation to ISDN2 and ISDN30 is not considered by Ofcom as relevant for inclusion in either the RFS or the Adjusted Financial Performance Schedule. While it may not always be appropriate to require adjustments of the RFS to reflect regulatory decisions, Ofcom must ensure consistency when deciding which cost adjustments to include and how they should be reported. We propose that, rather than having multiple treatments of similar methodologies (in the example above, Ofcom proposes three different treatments to handle one type of adjustment), Ofcom should have one treatment for all the same adjustments.

15. A key objective for Ofcom in defining what should be published is to avoid the *"….. risk that stakeholders may still not understand or potentially misinterpret the reported returns*".[4] The treatments that Ofcom proposes to exclude from the RFS and/or the Adjusted Financial Performance Schedules are all adjustments which would <u>tend to reduce BT's reported returns,</u> whereas the treatments that Ofcom proposes to include in the RFS and/or the

[4] 2013 Consultation, paragraph 6.10.

Adjusted Financial Performance Schedules are mostly adjustments which would tend to increase BT's reported returns. Ofcom's proposals therefore will increase rather than diminish the risk it is trying to avoid. In particular, it will make it more likely that stakeholders will misinterpret reported returns as meaning that, for pricing purposes, BT is making returns in excess of Ofcom's view of BT's returns.

16. Our preference is that the significant methodology and valuation adjustments that Ofcom has proposed to be included within the Adjusted Financial Performance Schedule should be within the RFS, so this additional schedule is no longer required. This consistency of reporting would benefit stakeholders, by avoiding confusion as to the right level of profitability shown within the market. The current proposal for two published sets of returns would mislead stakeholders. It would also avoid the unnecessary burden for BT to produce two views of market returns.

17. In the alternative, there could be a role for an Adjusted Financial Performance Schedule, subject to the following changes. A more logical division than that proposed by Ofcom is to embed in the RFS *all* the methodology changes, and to reflect in the Adjusted Financial Performance Schedule *all* the valuation changes. Rather than pick and choose which of these adjustments to include in the RFS or Adjusted Financial Performance Schedules or exclude from the statements entirely, it would be more logical, transparent and less open to misinterpretation for the RFS, to reflect BT's costs absent valuation adjustments,[5] and for the Adjusted Financial Performance Schedules to include such adjustments. In this way it will be clear to all what the incurred costs have been and the impact of Ofcom's adjustments consistent with regulatory decisions.

18. Ofcom does not need to be unduly concerned about the adjustments being subject to BT's judgement and discretion. This issue can be addressed by Ofcom specifying a methodology to follow, just as is has done in the case of RAV. Indeed, such an arrangement would have the added benefit of being completely transparent and certain.

19. In summary, we propose two options. The first option is to embed the significant methodology and valuation changes within the RFS, and avoid the confusion of two views of profitability. This is our preferred approach.

20. In the alternative, if Ofcom rejects our preferred approach, then we propose a second option that:

- The RFS should be prepared on the basis of BT's incurred costs, adjusted for Ofcom's proposed attribution changes;
- Valuation and cost adjustments should be incorporated in the relevant Adjusted Financial Performance Schedules; and
- Ofcom should specify, in a similar way to the RAV adjustment, how these adjustments should be performed by BT for the purpose of preparing the financial statements.

[5] RAV, HON, WLR line card, ISDN30 and ISDN2 steady state adjustments.

Schedule 1

21. The specification of the first schedule is set out in Part 2 of Annex 6 of the Consultation Document. As BT understands this draft Direction, as it applies to the FA markets, the overall impact at the market review level will be relatively small. This is because most of the adjustments relate to the re-allocation of common costs from services which would otherwise carry them (under a FAC system) to WLR and MPF. There will therefore be no net impact at the market review level for most of the adjustments.

22. Two of the changes would have an impact at the market review level, these being the specified calculation of the NRC of the assets of PSTN Line Cards (Part 2: Direction 1.3) and setting the NRC of Combi Card voice assets at £0 (Part 2: Direction 1.4). The latter would be very small and hence the only adjustment which can be in any way material is that to PSTN Line Card assets. However, this would also be very small in proportion to the FA market as a whole. Therefore, an argument that the schedule will promote competition (by showing returns with two adjustments to NRC for certain relatively minor assets) is very weak. This adjustment could be performed within the RFS.

23. Should Ofcom determine that we should publish the Adjusted Financial Performance Schedule at the same time as the RFS, we propose that the only adjustments included within that Schedule are those that affect the market level returns. The adjustments that are within a market (such as LRIC and common cost transfers) are not relevant to assess market level profitability.

Schedule 2

24. The more detailed schedule shows the effect of cost re-allocations to WLR and MPF i.e. the lower returns after Ofcom's various interventions (e.g. that migration services set at LRIC, requiring the main rental services to recover the common costs disallowed on specific services). In BT's view, this information could be provided to Ofcom as and when it is required for regulatory decisions (price controls being set every three years) rather than annually via the published RFS.

25. We agree with Ofcom that such detailed information should be provided privately to Ofcom.

26. In Part 2 of the Direction, Ofcom proposes to apply a number of adjustments to the treatment of ATM, SDH and DSLAM assets and 21CN costs within the RFS. These adjustments were justified to ensure that the reporting of the WBA market in the Regulatory Accounts uses cost allocation methods consistent with the modelling approach Ofcom adopted in setting the WBA charge control.

27. However, other elements Ofcom adopted in setting the WBA charge control are not reflected in the proposals for Regulatory Reporting, namely the application of the Hypothetical On-going Network (HON) and the removal of "other CCA adjustments", both of which are to be included only in the additional reporting schedules.

28. The consequence of this is that the Regulatory Financial Reporting would be inconsistent with the WBA charge control with the result that the published returns in these markets may not reflect the economic basis of the charge control decision made by Ofcom, for example due to the impact that the HON would have on reported ROCE.

29. Other CCA adjustments are genuine costs within the WBA market but were only excluded from the base year costs when setting prices. This was because other CCA adjustments are usually one-off or non-recurring costs, such as the cumulative effect of changing a CCA valuation methodology, and so were excluded from the charge control modelling. There is no reason why these costs should not be included when evaluating the Financial Performance of the WBA markets as these form part of the total costs under CCA accounting principles. Therefore, other CCA adjustments should not be excluded from the additional schedules.

30. We propose that the more detailed schedule should be provided on a timely basis after the RFS has been produced, allowing BT more time to calculate the impact of Ofcom's detailed and specific adjustments once the RFS has been finalised. There are many detailed calculations that need to be performed and it would be more practical for this schedule to follow after RFS production.

Section 4 – Consistency with regulatory decisions?

Question 4.1: Do you agree with our proposals in relation to the adjustments to be made to BT's data for inclusion in the Regulatory Financial Statements and the Adjusted Financial Performance Schedules?

31. From the FA Statement, Ofcom has proposed 10 adjustments to be made within the RFS, 7 adjustments for the Adjusted Financial Performance Schedules and 4 methodologies not to be included in either schedule. From the WBA Statement, Ofcom has proposed 4 adjustments to be made within the RFS, 2 adjustments for the Adjusted Financial Performance Schedules and 1 methodology not to be included in either schedule. We address these in turn by market review.

32. We disagree with Ofcom on four key specific adjustments:

    i. the rejection of the use of future benefits as an appropriate methodology in all cases. We believe that in some circumstances future benefits methodology will be the most appropriate methodology and its use should be justified on a case-by-case basis;

    ii. the voluntary extension of Ofcom's proposed methodologies to other markets outside the FA and WBA markets. We believe that any extension of Ofcom's proposed methodologies into other markets should be assessed on a case-by-case basis to determine whether the application is appropriate;

    iii. the proposed exclusion of the steady state adjustment on the ISDN2 and ISDN30 services. We believe that this is an inconsistent treatment of asset values compared with Line Cards; and

    iv. the exclusion of "other CCA adjustments" from the Adjusted Financial Performance Schedules. We believe that these costs are genuine costs and form part of the total cost under CCA principles.

Issues common to both market reviews

33. There are some issues that are consistent across both market reviews: future benefits and extending methodologies outside of the FA and WBA markets, 2011/12 methods, and absolute valuation.

Future Benefits

34. BT does not agree that Ofcom should *"expect BT to no longer use the 'future benefit's' principle to allocate costs in other markets"*. The basis of this appears to be that 'future benefits' principle uses hypothetical costs based on customers potentially migrating to new technology in the future. But it is exactly in these circumstances that accounting costs can send false economic signals, in particular exaggerating the costs of new services. Ofcom has long recognised this issue, certainly for more than ten years.

35. For example, recently Ofcom has said that,

"An accounting approach to depreciation would usually involve taking the price that would be paid for equipment (or was paid under historic cost accounting) and dividing this value by the expected equipment life to reach a depreciation charge for that year. As a result, in periods of low utilisation unit costs are relatively high and in periods of high utilisation unit costs are low."[6]

36. Ofcom's response to this issue – i.e. costs are unduly high in the short term and then too low in the longer term - has been to use economic deprecation which matches the cost of equipment to its actual and forecast use over the long term. Consequently, there is relatively little depreciation in years when utilisation is low and relatively high depreciation in years of full, or almost full, equipment utilisation. Ofcom has justified this treatment on the basis that this approach provides better economic signals as to underlying costs.

37. Economic depreciation has at its core forecast incomes (and hence volumes) generated by the asset over the asset's useful life. Thus the fact that the 'future benefits' principle uses what Ofcom describes as hypothetical costs based on a forecast of customers migrating to new technology in the future is no different in principle to Ofcom's use of forecast costs over the longer term – both are equally "hypothetical". The difference is only that future benefits forecasts volumes are based on an objective measure (volumes from migration at legacy service levels), whilst Ofcom appears to forecast volumes based on its view of long run levels. If economic deprecation can be justified in certain circumstances, then there is no good reason why future benefits cannot. To simply proscribe 'future benefits' without consideration of the facts as they apply in each case is not warranted, and has not been justified by Ofcom.

Extension of methodologies outside of FA and WBA

38. Ofcom expects BT to extend methodology decisions to other markets outside FA and WBA, on a voluntary basis.[7] There may be occasions where this is not appropriate, e.g. where extending the methodology into other markets would contradict a Regulatory Accounting Principle, such as cost causality.

39. We intend that the RAV adjustment will be applied to Access Duct alone. This is consistent with our understanding of the regulatory decisions within the BCMR.

2011/12 methods

40. We agree that RFS should not be restated upon 2011/12 methods, nor that it is possible to estimate the impact within the Adjusted Financial Performance Schedules. Ofcom explains in the Consultation Document the practical issues that we face.[8] We agree that should

[6] Footnote 807, Review of the fixed narrowband services markets , Statement on the proposed markets, market power determinations and remedies, 26 September 2013.
[7] Paragraph 4.149 of the Consultation Document.
[8] Paragraphs 4.26 and 4.28 of the Consultation Document.

stakeholders wish to see the impact of methodology changes since 2011/12 on a year on year basis, they can see this within the reconciliation schedules.[9]

Absolute valuation of Copper

41. We agree that reverting to absolute valuation of Copper is not appropriate. Ofcom explains in the Consultation Document[10] the issues that we face in producing an absolute valuation of Copper. Moreover, an indexation valuation is more straightforward, transparent and less volatile than the previous methodology. Ofcom has correctly decided not to revert to the previous methodology.

42. Below we consider the changes proposed following the FA Statement and the WBA Statement and provide comments as appropriate.

FA Market Review ("FAMR") Methodologies to be used within the RFS

Internal SMPF volumes

43. Ofcom requires BT to include internal SMPF services within the WLA market and publish their costs and volumes as *"…the results in the WLA market as it is currently reported are different to that we modelled when we set the LLU WLR charge controls*."[11]

44. BT notes that the reporting and Ofcom's cost modelling of other WLA services, in particular MPF services, are analogous to SMPF services. To apply this reporting obligation to SMPF services and not to MPF services might therefore be considered inconsistent.

DSLAM Capital Maintenance

45. Ofcom proposes that 70% of the DSLAM capital maintenance cost is attributed to SFIs and the remaining 30% is attributed to WLR, MPF and SMPF rentals using the combined usage factor rentals as per FAMR. These percentages were derived in the FAMR statement from analysis of SFI time applied to the MSDL Class of Work. Adopting Ofcom's method for estimating the 30%/70% split will result in different percentages each year. In the absence of further analysis or justification, it has been assumed that the percentages estimated in the 2011/12 base year will remain constant. The accuracy of the published accounts will be improved if new estimates, using the same method, are calculated each year as the basis for attributing MSDL costs to SFIs. Accordingly, BT proposes that MSDL COW time is attributed to SFI on the basis of analysis of SFI time in the reporting year, and the residual is allocated to WLR, MPF and SMPF rentals as per the FAMR.

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9 http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2014/ReportrequestedbyOfcomfortheyearended31March2014.pdf and http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2013/ReportrequestedbyOfcomfortheyearended31March2013.pdf

10 Paragraph 4.116 of the Consultation Document.

11 Paragraph 4.32 of the Consultation Document.

EvoTAM costs

46. Ofcom says that the justification for excluding the costs of EvoTAM from SMPF prices in the FAMR was as follows:

"…*recovering of EvoTAMs from all SMPF lines is a particular concern because the only SMPF lines that are connected to EvoTAMs are internal SMPF lines, that is those used by BT Wholesale.*"[12]

For this reason Ofcom proposes that BT must allocate EvoTAM costs away from SMPF Rentals.

47. Ofcom proposes that the costs are reported in the Wholesale Residual market rather than the WLA market. As BTW uses EvoTAMs to provide WBA services and EvoTAM costs are to do with the provision of those services, it would be in line with Ofcom's FAMR decision to allocate these costs to the WBA market rather than the WLA market. BT proposes that EvoTAM costs are reported against services in the WBA.

Group Overheads

48. Ofcom states that the "Strategy" subgroup of "Group Functions" costs should be attributed over the total average employees employed by each respective BT subsidiary. We note that the cost of the Ofcom admin fee is within the Strategy subgroup of Group Functions. We do not believe it is Ofcom's intention that the admin fee should be attributed to overseas subsidiaries. We propose that Ofcom excludes this item from the relevant costs to be attributed using total average employees across all BT subsidiaries.

49. There were no comments on other methodologies.

<u>FAMR Methodologies relevant to the Adjusted Financial Performance Schedule</u>

50. We agree that the seven methodologies relevant to the Adjusted Financial Performance Schedule reflect Ofcom's decisions in the FAMR:

i. TAM mark-up

ii. Line cards

iii. LRIC differential

iv. Caller Display

v. Migrations and WLR transfer

vi. LRIC and common cost transfers

vii. SMPF at LRIC

[12] Paragraph 4.59 of the Consultation Document.

FAMR Methodologies excluded from the RFS and the Adjusted Financial Performance Schedule

51. We agree that the absolute valuation of copper should not be within the RFS or the Adjusted Financial Performance Schedule. See paragraph 41.

52. We disagree with the proposed exclusion of the steady state adjustment on the ISDN2 and ISDN30 services. We believe that this is an inconsistent treatment of asset values compared with Line Cards. This lack of consistency is explained in paragraph 14.

53. While Ofcom is correct that the current charges for ISDN30 have not been set upon Openreach's current costs, these charges have been based on a forecast of the ISDN30 costs from the previous charge control. This forecast was based on Ofcom's model that included a steady state adjustment. Ofcom's rationale for doing so was clear - a steady state adjustment is required to review Openreach's ISDN30 profitability.[13] Ofcom should revisit the rationale for the exclusion of the ISDN30 steady state adjustment.

WBA Methodologies

54. BT considers that the use of actual revenues and volumes for ATM and SG&A cost allocations are appropriate in this instance. BT also considers that some DSLAM costs are fixed per DSLAM whilst others vary according to the number of customers, however BT acknowledges that the adjustment proposed to DSLAM cost allocation is consistent with the treatment adopted in the WBA charge control.

55. BT suggests that the approach adopted in paragraph 2.2 of the requirements set out on page 68 of Ofcom's Consultation Document should read "the actual volume of DSLAMs *in use* in each of Markets A and Market B". This is because it would be inappropriate to allocate costs to DSLAMs that are not in use and are in the process of being decommissioned.

56. In making the adjustment to the GRC of DSLAMs, BT considers that the *current replacement cost* of DSLAMs should be used rather than the "current average cost"[14] as the GRC should reflect the cost of replacing the existing stock of DSLAMs on a like for like basis using the most recently available DSLAM cost information. With the number of new DSLAMs likely to be very small, use of a "current average cost" may distort the valuation as newly commissioned DSLAMs may not be typical of the installed based.

57. We raise our concerns on the exclusion of "Other CCA adjustments" in paragraph 29 above.

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[13] See Paragraphs 1.7 and 1.14 Ofcom document "Wholesale ISDN30 price control" 12 April 2012.

[14] First bullet point in Paragraph 4.154 of the Consultation Document.

Section 5 – VULA Reporting

Question 5.1: Do you think that the proposed revisions to the scope, form and content of the Regulatory Financial Statements fairly reflected the decisions of the Fixed Access market review and are necessary to ensure that we have the information which we need to carry out our functions?

58. Ofcom's proposes that *"BT must disclose the revenue, volume, average price and FAC of each of VULA and VULA migrations*"[15] and the network components and FAC of VULA migrations.

59. Ofcom also proposes that BT provides three separate schedules to Ofcom privately that detail:

- *"revenues, volumes and fully allocated costs on a CCA basis of connections, rentals, migrations and other VULA services for both FTTC and FTTP*";[16]
- *"calculation of FAC based on component costs and usage factors for all services reported under the first schedule*";[17] and
- how BT has allocated the government grants for superfast broadband services.

Public information

60. We agree that the revenue, volume, average price and FAC of VULA migrations should be disclosed. This reflects Ofcom's approach that service level reporting aligns to basket level reporting. However, in BT's view such disclosure should only relate to VULA migrations, because this is the only charge controlled VULA service within the WLA market.

61. We agree that VULA should be reported within the WLA market. However, we disagree that the revenue, volume, average price and FAC of VULA should be separately reported. Based on a meeting that took place on 7 January 2015 between Ofcom and BT, we understand that it is Ofcom's intent to only require BT to report VULA in total within the WLA market.

62. This understanding is based on what Ofcom stated in the FAMR statement:

> *"Further, we note that the cost accounting obligations set out in Section 10 apply to VULA. Going forward, it is important that VULA is separately identified in BT's cost allocation, to ensure that common costs are correctly allocated across the suite of regulated services which are subject to pricing obligations. However, BT would not be publicly required to report these."*[18]

63. We propose that VULA is reported within a new service "WLA other" that captures all services within the WLA market that are not subject to basket level reporting. We will

[15] Paragraph 5.12 of the Consultation Document.
[16] Paragraph 5.15 of the Consultation Document.
[17] Paragraph 5.16 of the Consultation Document.
[18] Fixed Access Market Review Statement Paragraph 12.213.

report the revenue of this service within the RFS and include all the costs and capital employed of this service within the WLA market in total.

Private information

64. We agree that disclosure of detailed reporting of service FACs and BDUK grant income should be limited to Ofcom. This aligns with Ofcom's 20 May 2014 Statement.

Section 6 – Electricity Reporting

Question 6.1: Do you think that the proposed revisions to the scope, form and content of the Regulatory Financial Statements fairly reflected the decisions of the Fixed Access market review and are necessary to ensure that we have the information which we need to carry out our functions?

65. BT agrees that the proposed revision to the scope, form and content of the RFS, in relation to Electricity Reporting, reflects Ofcom's decision in the FAMR.

66. The cost components of the energy price are:

- Raw power;
- Sub meter operation and maintenance; and
- PSTN lines to carry meter data.

67. Openreach buys its raw power for the entire forthcoming financial year in advance to fix the price and remove any volatility in the market thereby providing stability on price. The total power forecast for consumption in the forthcoming financial year is calculated from two quarters of actual consumption from the current financial year. No mark-up is added to the raw energy cost; it is passed through at cost.

68. The vast majority of POPs have sub meters and a PSTN line to carry meter data. The PSTN lines are charged at the published price. The cost to Openreach for the sub meter operation and maintenance is marked up appropriately to cover related costs.

69. The total charges for the raw power, telephone lines, cost of sub meter operation and maintenance and mark up on sub meter operation and maintenance are then aggregated and divided by the total units of power consumed to determine the unit price.

70. Therefore, Ofcom's proposal is sufficient to ensure it has the information which it needs to carry out its functions.