



David Brown
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Dear David,

Regulatory Accounting Next Steps

UKCTA reiterates its support for robust regulatory accounting requirements upon BT. We welcome the effort expended by Ofcom to try and improve the regime for the benefit of all market participants. To that end we look forward to Ofcom's wider consultation around attribution decisions within the accounts later this year. For too long BT has been afforded too much discretion over what attribution rules apply as well as other material considerations which impact the underlying costs in specific markets. Often decisions have been taken that benefit BT's business, rather than being impartial. When this occurs the accounts cease to be the valuable reference tool used to underpin regulatory decisions or aid stakeholder transparency that they need to be. Ofcom's reforms will hopefully make this practice more difficult for BT to apply and improve confidence around the numbers presented.

With evolving markets and changing consumer demand it is important that BT's regulated accounting output remains relevant helping purchasers to understand whether the prices charged in SMP markets have been fairly, reasonably & efficiently derived. Getting reporting right early on is crucial, especially when a large amount of common costs are involved, spanning a number of regulated and unregulated services. VULA is a key concern of UKCTA members, being a product that competes with more heavily regulated services, sharing a large amount of common cost and benefiting from a substantial amount of state aid. It is essential that stakeholders and taxpayers are provided with the right level of transparency over the underlying costs of the service.

To this end UKCTA would welcome a more detailed consultative approach around what reporting is required for VULA in the future, to ensure that the right information is being captured and that sufficient thinking is done ahead of the relevant market review to ensure that appropriate reporting requirements are in place at the correct time. Likewise, should new remedies be imposed as a consequence of the BCMR then we would expect Ofcom to incorporate transparent reporting obligations around the remedy so that it could take effect from day one.

While it is only right that regulatory reporting rules flow from regulatory decisions, they should never be an afterthought and planning around what may be required should take place well ahead of any market review commencing. Unless Ofcom conducts focused, in-depth analysis of the appropriate reporting requirements from the outset, it will be extremely difficult to overcome the stakeholder distrust that currently prevails with regard to BT's regulatory statements, which is after all one of Ofcom's primary objectives.

We would welcome more work around ensuring better transparency around BT's profitability in individual SMP markets and in aggregate, across all parts of its regulated business. It is important for all stakeholders to know how much return is being made by the dominant provider where there is market failure. BT enjoys levels of profitability in regulated services that would be unachievable in a competitive market setting. With returns well in excess of BT's cost of capital, much of this excess has been generated not through efficiency improvements, but rather as a result of volume forecasting errors in charge control setting, or mitigation measures that have been included within the charge control design for policy reasons. In all cases stakeholders and Ofcom need to be clear about the level of profitability in order to make informed decisions and to preserve the wider consumer interest.

Another area of concerns for UKCTA member is the lower volume mandatory services which sit outside the current market review process, where BT is the monopoly supplier. Whilst services such as 112/999 Emergency call handling, Text relay and the Payphone Access Charge are all designed for public benefit and not provided to consumers on a commercial basis, BT's costs to provide them are not transparent and BT is receiving large sums at the wholesale level as it is only provider with the critical mass of traffic able to run such services. There is currently no way of determining with any certainty whether the wholesale payments that BT receives are cost orientated. These type of services need to be captured within the regulated framework and the regulatory accounts should be used to provide a badly needed transparency on the cost of providing them.

We would welcome further discussion on these issues and look forward to Ofcom's forthcoming consultation on BT attribution.

Yours sincerely,



Rosaleen Hubbard
UKCTA Secretariat