



BT's response to Ofcom's consultation document  
*"BT Regulatory Financial Reporting:  
Consultation on proposed  
regulatory reporting directions covering all regulated  
fixed telecoms markets."*  
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**NON-CONFIDENTIAL VERSION**

Comments should be addressed to:



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## 1. Executive Summary

- 1.1 Ofcom's regulatory policy is to make interventions to ensure competition and innovation in the telecoms market for the benefit of consumers. Its Significant Market Power (SMP) remedies, including regulatory reporting, must be proportionate and targeted. Price controls and other remedies should be imposed only where they can be clearly shown to further these aims, and a general framework should inform the imposition of reporting remedies, clearly linking these to the other remedies that they support.
- 1.2 In this context, we welcome Ofcom's consultation document on BT's regulatory financial reporting (2018 Reporting Consultation). The proposals represent a clear step forward in improving the focus and relevance of the regulatory financial information available to stakeholders, and the proportionality and consistency of reporting obligations across markets. We consider that stakeholders' interests are better served by shorter, clearer and more focussed Regulatory Financial Statements (RFS), targeted at areas of current regulatory importance.
- 1.3 Nevertheless, we recognise that these proposals can only be an interim position to cover the period to 2020-21. The changes to regulation in the forthcoming access review (covering periods from April 2021) may be substantial. They will include matters such as geographic regulation, a revised pricing structure of passive infrastructure, treatment of legacy network costs and future investment in Openreach's fibre network. These are likely to require wide ranging changes in the associated reporting requirements. We look forward to working further with Ofcom and other stakeholders on developing a long term reporting structure; the interim position must allow sufficient flexibility to allow this structure to develop.
- 1.4 Ofcom's general reporting proposals and those specifically for the Business Connectivity (BC) markets provide increased focus to both the RFS and private reporting to Ofcom. They would remove certain immaterial, irrelevant and duplicate information and they recognise the increased focus of regulation on Openreach.
- 1.5 Ofcom's proposals for the Physical Infrastructure (PI) markets correctly recognise the developing nature of regulation. We welcome Ofcom's recognition that reporting, like other aspects of PI Access, will require substantial changes to Openreach's systems and processes. While we broadly support the proposals for 2019-20, we note that the long term structure of PI pricing is under review and will not be clear until Ofcom's intended 2021-2026 market review (the "Integrated Market Review") is completed. Therefore detailed cost reporting for the year 2020-21 based upon the existing price structure could be misleading to stakeholders. We recommend instead that this requirement is delayed for one year.

## 2. Introduction

- 2.1 This document should be read in conjunction with both our and Openreach's responses to the 2018 Physical Infrastructure Market Review Consultation (2018 PIMR Consultation) and the 2018 Business Connectivity Market Review Consultation (2018 BCMR Consultation). In these responses, we set out our comments on market definitions, Ofcom's findings of SMP, and regulatory remedies proposed by Ofcom.
- 2.2 In general, we accept that where Ofcom has defined a market, found us to have SMP in that market and imposed regulatory reporting, cost accounting and accounting separation remedies, it is appropriate to impose the eight directions relating to reporting on that market.<sup>1</sup>
- 2.3 Our comments in this document have been prepared on the basis that market definitions and regulatory remedies imposed by Ofcom on BT are pursuant to the 2018 PIMR Consultation and 2018 BCMR Consultation. However, should market definitions, the findings of SMP, and/or regulatory remedies differ from those set out in those consultations, Ofcom should reflect those changes in the reporting obligations imposed on us. We propose that any such changes should be in line with the regulatory reporting framework we set out in Section 3 (see paragraph 3.5 below).
- 2.4 We note that the response date for Ofcom's 2018 PIMR Consultation has been put back to 1 February 2019. We reserve the right to amend or supplement this response to reflect any developments in Openreach's responses to that consultation, given the close linkages between these reviews.
- 2.5 These comments are made without prejudice to our and Openreach's comments in the respective responses to the 2018 BCMR and PIMR Consultations.

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<sup>1</sup> The eight directions are discussed in paragraphs 2.11 to 2.30 of the 2018 Reporting Consultation.

### 3. Regulatory financial reporting in relation to all regulated markets

- 3.1 In this section, we set out our comments on Ofcom’s proposed reporting requirements, as set out in Section 3 of the consultation, and our response to Question 3.1:

*Question 3.1: Do you agree with our proposals in respect of BT’s regulatory financial reporting requirements in relation to all regulated markets? Please set out your reasons and supporting evidence for your response.*

#### Regulatory reporting framework

- 3.2 We agree with Ofcom on the purpose of regulatory financial reporting and the attributes of effective regulatory reporting, as stated in the 2018 Reporting Consultation.<sup>2</sup>
- 3.3 Specifically, we agree with Ofcom that *“Published Regulatory Financial Reporting should provide reasonable confidence to stakeholders that the Significant Market Power (SMP) provider has complied with its SMP conditions and adds credibility to the Regulatory Financial Reporting Regime.”*<sup>3</sup>
- 3.4 We stated in our response to the 2017 BT Reporting Consultation<sup>4</sup> and to the 2018 KCOM Reporting Consultation<sup>5</sup> that Ofcom should consider a framework for regulatory reporting. We stated that the primary purpose of this framework is to ensure stakeholders’ needs and interests are prioritised, where:
- 3.4.1 Stakeholders are given clarity and certainty over information necessary to be disclosed via clear association of pricing (and other) remedies with reporting remedies; and
  - 3.4.2 Stakeholders are given relevant, transparent and accessible information via a reduction in the complexity and volume of regulatory reporting, in particular by removing the obligation to provide information which adds little or no value and/or which is immaterial.

Notwithstanding the above, we clarified in our response to the 2018 KCOM reporting consultation that *“reporting obligations should be proportionate to the benefit and, to*

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<sup>2</sup> Paragraphs 2.1-2.6 of the 2018 Reporting Consultation.

<sup>3</sup> Ibid, paragraph 2.2.

<sup>4</sup> Paragraph 3.4 of BT’s response to Ofcom’s consultation document: “Regulatory Financial Reporting: Consultation on proposed directions to BT arising from the Wholesale Local Access and Wholesale Broadband Access market reviews”, 15 January 2018 (2017 Reporting Consultation).

<sup>5</sup> Paragraphs 3.1-3.4 of BT’s response to Ofcom’s consultation document: “KCOM Regulatory Financial Reporting: Consultation on proposed regulatory financial reporting directions for KCOM”, 10 September 2018.

*be proportionate, the requirement must go no further than necessary (i.e. no more onerous than necessary)".<sup>6</sup>*

3.5 In the table below and as in our previous consultation responses, we summarise our proposal for such a framework for regulatory reporting, which makes a clear link between any pricing remedy imposed and information that operators are required to publish:

**Table 3.1: Our proposed framework for regulatory reporting**

Remedy	Reporting obligation			
	Performance summary by market	Adjusted performance schedule	Market summary	FAC by service and component
<b>CPI-X charge control</b>	Published	As appropriate	Published	Published at appropriate basket level
<b>Cost orientation/basis of charges</b>	Published	As appropriate	Published	Depends upon specific nature of cost orientation requirement
<b>Fair and reasonable</b>	Published	As appropriate	None	None
<b>Bottom up charge control</b>	None	None	None (revenues and volumes in a compliance statement)	None
<b>Safeguard cap</b>	None	As appropriate	None (revenues and volumes provided in a compliance statement)	None
<b>No pricing remedy</b>	None	None	None	None

3.6 We consider that Ofcom’s consultation proposals are generally in accordance with the above framework. We continue to propose that any future reporting regulation should be consistent with this framework.

#### Fair and reasonable pricing

3.7 Within Volume 1 of the 2018 BCMR Consultation, Ofcom considers that fair and reasonable pricing (in the absence of other price regulation) prevents “BT from setting

<sup>6</sup> Paragraph 3.2.4, BT’s Response to the 2018 KCOM Reporting Consultation.

*charges that impact other providers' ability to compete with BT in downstream markets and so will support the aim of promoting improved efficiency.”<sup>7</sup>*

- 3.8 In addition Ofcom believe that *“fair and reasonable charges will allow BT’s costs to be taken into account and will also provide for common cost recovery. This condition is therefore an appropriate basis upon which to control BT’s prices”*.<sup>8</sup>
- 3.9 Clarity from Ofcom over the reporting measures that would be relevant in assessing fair and reasonable pricing would be of great assistance to stakeholders and would provide a clear link between reporting and this form of pricing remedy.

#### Interpretation of market level results

- 3.10 Openreach is going through a period of large upfront infrastructure investment with long, uncertain payback periods. Therefore, although we support Ofcom’s proposals to report results by product market, including those for PI and leased lines, stakeholders should be cautious in their interpretation of these, as in-year ROCE is not the sole measure of the success of regulation.

#### Changes to the Consistency with Regulatory Decisions Direction

- 3.11 Below, we set out our specific comments on Ofcom’s proposals in Section 3 of the 2018 Reporting Consultation.

#### Attribution of cumulo costs to regulated markets in 2019-20

- 3.12 We agree in principle with Ofcom that:

3.12.1 The implementation of the PIA and dark fibre remedies will have *“...implications for how BT’s cumulo rates are attributed in 2019-20 and 2020-21”*;<sup>9</sup>

3.12.2 Cumulo costs should not be attributed to PIA products in the RFS as *“...it is the occupation of those assets that triggers the rating liability, not the existence of the asset.”*<sup>10</sup>

- 3.13 Ofcom also proposes that *“...BT’s cumulo costs should not be attributed to dark fibre services provided to telecoms providers other than BT”*.<sup>11</sup> This implies that BT’s cumulo costs should be attributed to internal dark fibre services.

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<sup>7</sup> Paragraph 11.23, 2018 BCMR Consultation, Volume 1, 2 November 2018.

<sup>8</sup> Ibid, paragraph 11.25.

<sup>9</sup> Paragraph 3.8 of the 2018 Reporting Consultation.

<sup>10</sup> Ibid, paragraph 3.9.

<sup>11</sup> Ibid, paragraph 3.10.

3.14 However, as acknowledged by Ofcom, “...dark fibre prices do not include any contribution to BT’s cumulo rates costs”<sup>12</sup> and therefore, cumulo costs should not be attributed to internal dark fibre services.

3.15 We propose that any cumulo liabilities incurred on internal dark fibre should be attributed to the downstream services, thereby making the treatment consistent with that of external dark fibre services and PIA services.

3.16 We propose revised wording to the legal instruments in Annex 1 to achieve this.

#### Allocation of general overheads

3.17 We agree with Ofcom’s proposal to “change...all references to BT Wholesale to BT Enterprise” to “...reflect accurately the units within BT”.<sup>13</sup>

3.18 We estimate that in 2018-19, less than £100,000 of BT Enterprise general overheads will be allocated to SMP markets using the Previously Allocated Cost (PAC) method. This is because the majority of BT Enterprise’s business is unregulated. As an illustration, external revenues attributed to markets in which BT Enterprise has SMP (excluding the low bandwidth TISBO market) amounts to circa 1%<sup>14</sup> of total revenues for BT Enterprise in 2017-18.<sup>15</sup> Therefore, we propose that BT Enterprise general overheads should no longer be allocated to SMP markets, due to the immateriality of those costs.

#### Changes to the Reconciliation Report Direction

3.19 We welcome Ofcom’s proposals to simplify and clarify the Reconciliation Report, by:

3.19.1 Increasing “...the absolute materiality threshold used in the Reconciliation Report from £1m to £5m”;<sup>16</sup> and

3.19.2 Removing duplication in the Reconciliation Report by specifying a reduced number of schedules.<sup>17</sup>

#### Changes to the Preparation, Delivery, Publication, Form and Content of the RFS Direction: BT Level information

##### Specific changes to the form and content within certain BT wide schedules in the RFS

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<sup>12</sup> Paragraph 3.9 of the 2018 Reporting Consultation.

<sup>13</sup> Ibid, paragraph 3.12.

<sup>14</sup> Based on total external revenues for the following markets per the 2017-18 RFS: Fixed Call Origination, Fixed Geographic Call Termination, Technical Areas and WBA Market A.

<sup>15</sup> As per note 31 of BT Group plc 2017-18 statutory financial statements.

<sup>16</sup> Paragraph 3.19 of the 2018 Reporting Consultation.

<sup>17</sup> Ibid, paragraphs 3.21-3.24.



### Changes to BT wide schedules which increases the focus of Openreach reporting

- 3.20 We welcome Ofcom's agreement to increase the prominence of Openreach reporting in the RFS<sup>18</sup>, thereby increasing focus on Openreach pricing regulation. We estimate that with the decrease in size of WBA Market A<sup>19</sup> and the lifting of regulation on the low bandwidth TISBO market<sup>20</sup>, circa 96% of total BT SMP revenue and circa 98% of external BT SMP revenue would be derived by Openreach.<sup>21</sup>
- 3.21 This is a step forward to publishing an Openreach-only RFS, which would be more relevant to stakeholders in the context of current and evolving regulation.

### Changes to the "Performance Summary by Market", "Attribution of Wholesale Current Costs" and "Attribution of Wholesale Current Cost Mean Capital Employed (MCE)" schedules

- 3.22 We welcome Ofcom's proposals for changes relating to formatting and cost categories for the "Performance Summary by Market", "Attribution of Wholesale Current Costs" and "Attribution of Wholesale Current Cost MCE" schedules,<sup>22</sup> specifically:
- 3.22.1 Separate publishing of "Openreach Residual", and combining "Wholesale Residual" and "Retail Residual" sections into "Rest of BT Residual", to increase the prominence of Openreach reporting within the RFS;
  - 3.22.2 Removal of the requirement to publish the Openreach income statement and MCE statement, as these can be obtained in other schedules within the RFS;
  - 3.22.3 Combining "Bad Debts" and "Finance and Billing" cost categories within the "Other" cost category in the "Attribution of Wholesale Current Costs" schedule, to combine immaterial items; and
  - 3.22.4 Aggregating "Current Assets" into one asset category while maintaining the internal / external split, to combine immaterial items.
- 3.23 Ofcom's proposal requires us to disclose "Rest of BT Residual" costs by sector within the "Attribution of Wholesale Current Costs" and "Attribution of Wholesale Current Cost MCE" schedules.<sup>23</sup> This new proposed requirement would be inappropriate and disproportionate as it would require disclosure beyond the SMP markets and at a greater level of detail than in the BT Group plc statutory financial statements.
- 3.24 We assume that Ofcom's main purpose for requiring this disclosure is to reconcile market totals in these schedules to other schedules within the RFS. We therefore

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<sup>18</sup> Paragraphs 3.31-3.33 of the 2018 Reporting Consultation.

<sup>19</sup> From 9.5% of UK premises in 2014 to 0.9% in 2018. Refer to paragraphs 4.1 and 4.14 of the WBA market review 2018, published 31 July 2018.

<sup>20</sup> Refer to paragraph 5.12 below.

<sup>21</sup> Based on revenues in the published 2017-18 RFS, adjusted for decrease in size of WBA market A and nil revenue from the Low Bandwidth TISBO market.

<sup>22</sup> Changes detailed in paragraphs 3.31-3.36 of the 2018 Reporting Consultation.

<sup>23</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex A.

propose that “Rest of BT Residual” costs in these two schedules are grouped at the following levels instead:

**Table 3.2: Our proposed disclosure of “Rest of BT Residual” costs**

Attribution of Wholesale Current Costs schedule	Attribution of Wholesale Current Cost MCE schedule
<ul style="list-style-type: none"> <li>• Total Operating Costs</li> <li>• Total Depreciation</li> <li>• Total HCA Operating Costs</li> <li>• Roundings</li> <li>• Total CCA Operating Costs</li> </ul>	<ul style="list-style-type: none"> <li>• Total Non-current Assets</li> <li>• Total Current Assets</li> <li>• Total Current Liabilities</li> <li>• Total Assets less Current Liabilities</li> <li>• Total Provisions</li> <li>• Roundings</li> <li>• Total Mean Capital Employed</li> </ul>

3.25 In addition, we propose that:

3.25.1 “External Revenue” within the “Attribution of Wholesale Current Costs” schedule is removed.<sup>24</sup> Considering the purpose of this schedule is to disclose current costs and not revenues, this information is not relevant here;

3.25.2 “General Support” and “General Management” costs are combined and reported as “General Management” costs as there is no material difference between the nature of these costs;<sup>25</sup>

3.25.3 “Access – Duct” is renamed to “Duct” within the “Attribution of Wholesale Current Cost MCE” schedule. This is to reflect that this sector captures the combined cost of all duct, whether used for access or core transmission services, as detailed in BT’s Accounting Methodology Document (AMD);<sup>26</sup> and

3.25.4 “Investments” is no longer required within the “Attribution of Wholesale Current Cost MCE” schedule as no investment costs have been recognised within SMP markets since 2014-15.<sup>27</sup>

Changes to the “BT Reconciliation Statement – Consolidated Profit and Loss Account” schedule

3.26 We agree with Ofcom’s proposal that *“inter-market revenue and costs should be recorded under the ‘Eliminations’ line within the “Summary of Market Performance” schedule rather than as a reconciling item with the “BT Reconciliation Statement –*

<sup>24</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex A.

<sup>25</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex A.

<sup>26</sup> Page 267 of BT’s 2017-18 AMD.

<sup>27</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex A.

*Consolidated Profit and Loss Account” as this would be “the most transparent place to include [it]”.*<sup>28</sup>

- 3.27 Ofcom listed “Northern Ireland” as a reconciling item within the BT Reconciliation statement schedule. Considering that the hosting of Northern Ireland Networks was changed to Openreach in 2018-19, there will no longer be a requirement to disclose this as a reconciling item from 2019-20. We therefore propose that Ofcom deletes this reference from the final statement effective from the 2019-20.

#### Changes to schedules that reconcile the RFS to BT Group plc’s statutory financial statements

- 3.28 We welcome Ofcom’s proposal that *“the two profit and loss reconciliations which reconcile from BTs [sic] annual accounts to the RFS be combined into one single reconciliation covering both BT and Openreach with inter-market revenues and costs to be removed from the requirement to be included as a reconciling item”.*<sup>29</sup>

- 3.29 We agree that *“combining the two reconciliations will be consistent with the new market performance and cost attribution schedules”*, and that this *“should also provide greater transparency for the users of the RFS”.*<sup>30</sup>

#### IFRS 15 reporting in the RFS

- 3.30 We welcome Ofcom’s proposal on producing an RFS consistent with IFRS 15 so that *“the RFS remained consistent with BT’s statutory financial statements”*<sup>31</sup>, where:

3.30.1 *“An additional line “IFRS deferred revenue” within the Market Summary which reconciles revenues consistent with the charge control back to the revenue recorded under IFRS 15”.*<sup>32</sup>

3.30.2 *“SLG payments will be recognised as a credit to revenue rather than an operating cost. SLG costs will still appear in the total FAC costs for each relevant service but again there will be an additional line added to the bottom of the market split by service which will show the total credit against revenue for all relevant services and a credit against the total cost.”*<sup>33</sup>

- 3.31 Ofcom states that *“BT proposed to produce the RFS consistent with IFRS 15 (with comparatives to be restated) from the 2018-19 RFS...”*<sup>34</sup>

- 3.32 To clarify, we do not plan to restate comparatives in the 2018-19 RFS. This is to align with the approach taken for the BT Group plc statutory financial statements. In the

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<sup>28</sup> Paragraphs 3.37-3.38 of the 2018 Reporting Consultation.

<sup>29</sup> Ibid, paragraph 3.41.

<sup>30</sup> Ibid, paragraph 3.41.

<sup>31</sup> Ibid, paragraph 3.44.

<sup>32</sup> Ibid, paragraph 3.44.

<sup>33</sup> Ibid, paragraph 3.45.

<sup>34</sup> Ibid, paragraph 3.44.

2017-18 BT Group plc statutory financial statements, in relation to IFRS 15, we stated that *“having considered further the factors that would influence our approach (including the time, effort and cost of adopting IFRS 15 retrospectively)...we have decided to adopt the new standard on a modified retrospective basis...we will not restate prior year comparatives for the effect of IFRS 15...”*<sup>35</sup> We plan to adopt a similar approach for the 2018-19 RFS for the same reasons.

### General changes to the form and content within certain BT wide schedules in the RFS

3.33 We propose general formatting changes and minor corrections to the BT wide schedules in the RFS and we set these proposals in Annex 1. This Annex also captures all other amendments we have proposed in this section.

### Proposed requirements for private information to be provided to Ofcom

#### Changes to LRIC, DLRIC and DSAC reporting

3.34 We agree with Ofcom that it would be disproportionate to *“...require BT to fully develop its LRIC model in the short term”*. We welcome Ofcom’s proposal that *“in the short term and without...LRIC model development...BT does not provide LRIC, DLRIC and DSAC data by service.”*<sup>36</sup>

3.35 We agree that in 2019-20 and 2020-21, there would be *“merit in BT continuing to provide us [Ofcom] with some LRIC information to inform our [Ofcom’s] future modelling work.”*<sup>37</sup>

#### Duplicated additional private information

3.36 We welcome Ofcom’s proposals to reduce the provision of duplicated Additional Financial Information (AFI), where Ofcom does *“...not consider it necessary to direct BT to provide separate AFIs where the same information can be provided...in an appropriate format as part of the Data File”*.<sup>38</sup>

3.37 We agree with Ofcom that AFIs should only be provided for:<sup>39</sup>

3.37.1 *“Information Ofcom does not get as part of the Data File”;*

3.37.2 *“Where obtaining the information from the Data File would not be straightforward and/or the information from the Data File is different to that which would have been included in the AFI”;* or

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<sup>35</sup> Page 206, BT Group plc 2017-18 statutory financial statements.

<sup>36</sup> Paragraph 3.51 of the 2018 Reporting Consultation.

<sup>37</sup> Ibid, paragraph 3.52.

<sup>38</sup> Ibid, paragraph 3.54.

<sup>39</sup> Ibid, paragraph 3.54

3.37.3 “Where the AFI is used as a control total for information obtained from the Data File”.

3.38 We suggest that the following AFI schedules should also be removed based on these criteria:

**Table 3.3: Summary of additional AFIs which should be removed by Ofcom**

<b>Reference in Annex B of the 2018 Reporting Consultation<sup>40</sup></b>	<b>AFI schedule</b>	<b>Summary description</b>
AFI to be provided in respect of each Market and Interconnect Circuits (v)	Analysis, by asset category, of the depreciation charge for the year and impact of CCA valuation adjustments on costs for the year for example: <ul style="list-style-type: none"> <li>• HCA depreciation</li> <li>• CCA supplementary depreciation</li> <li>• Holding gain</li> <li>• Other CCA adjustments</li> </ul>	<ol style="list-style-type: none"> <li>1. Provide impact on profit and loss cost base of the application of CCA methodologies;</li> <li>2. Enable trend analysis of this breakdown to be undertaken;</li> <li>3. Provide sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components;</li> <li>4. Provide input into network price control reviews.</li> </ol>
AFI to be provided in respect of the WLA market (iv)	Detailed WLA Service revenues, volumes and costs.	<ol style="list-style-type: none"> <li>1. set out the revenues, volumes and FAC on a CCA basis of any other WLA service not publicly disclosed where the revenue from this service is above £5m;</li> <li>2. the revenues and costs should, in total, be reconciled to the revenues and costs included within the publicly reported totals for the WLA Market.</li> </ol>
AFI to be provided in respect of the WLA market (v)	Detailed WLA Service Component FACs	<ol style="list-style-type: none"> <li>1. set out the calculation of FAC based on component costs and usage factors for all services reported in the Detailed WLA Services schedule;</li> <li>2. the fully allocated service unit costs should reconcile to those given in the in the detailed WLA Services schedule.</li> </ol>
AFI to be provided in respect of Interconnect Circuits	Interconnect information at the DLE and tandem layer	A schedule of volumes, revenues, operating costs and MCE associated with interconnect circuits at the DLE and tandem layer combined (e.g. a similar

<sup>40</sup> These AFIs are currently disclosed in Annex B, Direction 5 of the Annex to the 2018 Reporting Consultation.

Reference in Annex B of the 2018 Reporting Consultation <sup>40</sup>	AFI schedule	Summary description
		format to the schedule on page 79 of the 2016-17 RFS)

## Network Components Direction

- 3.39 We agree with Ofcom’s proposal to make changes to the network components list to “ensure consistency between the network components list and BT’s RFS”.<sup>41</sup>
- 3.40 We recognise it is important for Ofcom to specify a clear list of network components that it requires to inform its modelling, make informed regulatory decisions, and monitor compliance with SMP conditions. We agree with Ofcom that “it is for BT to determine how network components are constructed and to ensure that the attributions to them are in accordance with the Regulatory Accounting Principles (RAP).”<sup>42</sup>
- 3.41 However, we propose that Ofcom considers whether the Network Components Direction is the appropriate mechanism in determining an exhaustive network components list to achieve its regulatory objectives.
- 3.42 We understand that Ofcom typically imposes legal directions during market review cycles following a period of consultation, and BT needs to comply with the legal direction until it is subsequently amended or removed. Any changes to a legal direction usually happen in the following market review cycle.
- 3.43 Any general changes made to the RFS, for example to reflect changes in our business or arising from process improvement reviews, are implemented under the Change Control Notification (CCN) process. Significant elements of this process are directed by Ofcom, as follows:
- 3.43.1 BT “must publish and deliver to Ofcom a list of each and every change to the Regulatory Accounting Methodology, by 31 March of the Financial Year in which the change to the Regulatory Accounting Methodology is to be made. The Change Control Notification must be accompanied by a description of each of the changes, the reason for making each of the changes and the impact of each of the changes on the figures at the level of the Markets and Technical Areas”;<sup>43</sup>

<sup>41</sup> Paragraph 3.58 of the 2018 Reporting Consultation.

<sup>42</sup> Ibid, paragraph 3.59.

<sup>43</sup> Paragraph 12.21, Annex 33, Wholesale Local Access Market Review statement, published 28 March 2018.

3.43.2 *Where in Ofcom’s opinion any change... does not comply with the Regulatory Accounting Principles, the Dominant Provider (BT) shall not make such change, if so directed by Ofcom”;*<sup>44</sup>

3.43.3 *The Dominant Provider (BT) must prepare a reconciliation report... which sets out changes to the Regulatory Accounting Methodology and the impact of such changes on the Regulatory Financial Statements...”;*<sup>45</sup> and

3.43.4 *The Dominant Provider must obtain an audit opinion on the reconciliation report as directed by Ofcom from time to time.*<sup>46</sup>

3.44 The CCN process provides a balance between flexibility and control in making changes to the RFS, as Ofcom has powers to closely monitor any changes we make and to restrict or reject these changes where they do not comply with the RAP.

3.45 Therefore we propose that Ofcom allows us to add or remove network components from the network components list via the CCN process rather than restricting us to an exhaustive and rigid list set by a legal direction.

3.46 In addition, we believe that components relating to the TISBO market<sup>47</sup> in the network components list have been included in error and should be removed. BT is no longer deemed to have SMP in the TISBO market and therefore should have no reporting obligations in this area.

## Comments on specific definitions within the 2018 Reporting Consultation

### Definition of Mean Capital Employed (MCE)

3.47 Ofcom proposes to define MCE as *“Total assets less current liabilities, excluding corporate taxes and dividends payable, and provisions other than those for deferred taxation. The mean is computed from the start and end values for the period, except in the case of short-term investments and borrowings, where daily averages are used in their place.”*<sup>48</sup>

3.48 We stated in the 2011-12 RFS that the daily averaging adjustment has been removed from the accounts to simplify reporting.<sup>49</sup> We have not reinstated daily averaging adjustments since 2011-12 and do not plan on doing so. Therefore, references to “daily averages” should be removed from the MCE definition.

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<sup>44</sup> Paragraph 12.22 of the 2018 Reporting Consultation.

<sup>45</sup> Ibid, paragraph 12.23.

<sup>46</sup> Ibid, paragraph 12.24.

<sup>47</sup> Annex 5 of the 2018 Reporting Consultation, Direction 6, Schedules A and B

<sup>48</sup> Ibid, Schedule C, paragraph 1q.

<sup>49</sup> Section 4e of the 2011-12 RFS, page 17.

- 3.49 In addition, we propose alternative wording for the definition of MCE. This wording has an identical effect to Ofcom’s proposed definition but is better aligned to the definition per the BT Group plc statutory financial statements which, in our view, is clearer.
- 3.50 In the BT Group plc statutory financial statements, *“Capital employed is represented by total assets less current liabilities (excluding corporation tax, current borrowings, derivative financial liabilities and finance lease creditors) less deferred and current tax assets, retirement benefit asset, cash and cash equivalents, derivative financial assets and investments.”*<sup>50</sup>
- 3.51 In the RFS, cash and cash equivalents and provisions are attributed to SMP markets and therefore should be included in the definition of MCE. Therefore, we propose an amended definition of MCE from paragraph 3.50 above, where MCE is equal to *“Total assets less current liabilities and provisions (excluding corporation tax, current borrowings, derivative financial liabilities and finance lease creditors), less deferred and current tax assets, derivative financial assets and retirement benefit assets. The mean is computed from the start and end values for the period.”*

#### Definition of Access Fibre<sup>51</sup>

- 3.52 Ofcom defines “Access Fibre Cable” as *“...fibre cable from BT exchange to the end user’s premises as per BT’s Accounting Methodology Document [AMD]”*. Ofcom states that the Core Junction Fibre (CJF) class of work is covered by this definition.
- 3.53 For clarification, as stated in page 297 of our 2017-18 AMD, the CJF class of work captures the costs of backhaul and core fibre cables, which are located between exchanges. We therefore recommend that Ofcom updates its definition of Access Fibre accordingly.
- 3.54 We propose revised wording to the legal instruments in Annex 1 to achieve this.

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<sup>50</sup> Page 294 of the 2017-18 BT Group plc statutory financial statements.

<sup>51</sup> Annex 5 of the 2018 Reporting Consultation, Direction 2, Schedule C, Part 1, paragraph 1a.



## 4. Regulatory financial reporting in relation to the physical infrastructure market

- 4.1 In this section, we set out our comments on Ofcom’s proposed reporting requirements, as set out in Section 4 of the consultation, and our response to Question 4.1:

*Question 4.1: Do you agree with our proposals in respect of BT’s regulatory financial reporting requirements in relation to the physical infrastructure markets? Please set out your reasons and supporting evidence for your response*

### Proposal to set the eight directions common to all regulated markets in the physical infrastructure market

- 4.2 In paragraph 2.2 above, we state that where Ofcom has defined a market, found us to have SMP in that market and imposed regulatory reporting, cost accounting and accounting separation remedies, it is appropriate to impose the eight directions on that market.
- 4.3 Based on this, we agree that the imposition of these eight directions is consistent with the remedies and findings set out in the 2018 PIMR consultation. We and Openreach will be commenting on the findings and remedies in our response to that consultation (in particular we question the definition of the market from which the remedies follow). As stated in paragraph 2.4, we note that the response date for Ofcom’s 2018 PIMR Consultation has been put back to 1 February 2019. We reserve the right to amend or supplement this response to reflect any developments in Openreach’s responses to that consultation, given the close linkages between these reviews.
- 4.4 As stated in paragraph 2.3, our response to this reporting consultation assumes the implementation of the proposals that Ofcom sets out in that consultation; should proposals in any subsequent consultation or in Ofcom’s final statement differ from these, we expect Ofcom to amend its reporting proposals accordingly.

### Consistency with Regulatory Decisions – Network Adjustments

- 4.5 Ofcom proposes a number of reporting requirements relating to Network Adjustments “to allow Ofcom and stakeholders to monitor BT’s compliance with [its] proposals for how network adjustments costs should be recovered, and the proposed requirement for no-undue discrimination”.<sup>52</sup> It further states “for the avoidance of doubt, the no undue discrimination requirement proposed in the 2018 PIMR Consultation applies to all network adjustments carried out to support BT’s own downstream services, irrespective of whether they relate to the fibre or copper networks”.<sup>53</sup>

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<sup>52</sup> Paragraph 4.6 of the 2018 Reporting Consultation.

<sup>53</sup> Ibid, paragraph 4.7.

- 4.6 In Openreach's response to the 2018 PIMR Consultation, it explains that it is taking steps to ensure that its full-fibre build processes are fully equivalent with the relevant Duct and Pole Access (DPA) activities. Openreach believes that Ofcom's prime policy objective for DPA is to incentivise investment in alternative Fibre to the Premise (FTTP) networks. Therefore, although it recognises that unrestricted DPA (uDPA), if introduced, can be used for any purpose, Openreach believes that its own Fibre Cities / FTTP programme is the most appropriate reference point for the No Undue Discrimination (NUD) requirement going forward.
- 4.7 Openreach also explains the further challenge it faces if its complex systems, processes and operations across all different technologies (e.g. copper, broadband, business connectivity, etc.) would be subject to NUD.
- 4.8 We concur with Openreach's response and consequently we believe that the reporting of internal network adjustments should be limited to FTTP roll out and should exclude those network adjustments incurred in the provision of other technologies. The reporting of network adjustments in this way will allow users of the RFS to benchmark network adjustments incurred in rolling out our Fibre Cities / FTTP programme with those incurred by operators building alternative FTTP networks using DPA.
- 4.9 Reporting network adjustments for other technologies would not be relevant to operators with an interest in building such a network and therefore would not complement Ofcom's objective of promoting such investments.
- 4.10 We are working to ensure our processes for the Fibre Cities / FTTP programme is equivalent with the relevant DPA activities. We nevertheless note that the processes for the supply of such services internally and externally are not necessarily identical and in implementing a reporting solution we will need to develop appropriate record keeping solutions.
- 4.11 There are three specific areas where we will need to develop appropriate measures:
- 4.11.1 **Number of network adjustments:** our processes and supplier arrangements will need to be reengineered in order to record the numbers and types of network adjustments e.g. [X].
  - 4.11.2 **Cost of network adjustments:** we are investigating how to separate the costs between network adjustments from new build costs [X].
  - 4.11.3 **Definition of Area for financial limit:** in order to calculate the average costs per km, required to assess whether network adjustments are above or below the financial limit, we will need to define an area that is analogous to that used in calculating financial limits for external network adjustments.
- 4.12 Should we be required to report internal network adjustments beyond FTTP rollout, then we would need to develop additional methods to extend these measures to cover

all of Openreach's systems, processes and operations across all its different technologies.

#### Network adjustments above the financial limit

- 4.13 We agree that it is appropriate to treat these costs as an operating expense within the PI market as this is consistent with Ofcom's regulatory decision in the 2018 WLA statement.<sup>54</sup>
- 4.14 We welcome Ofcom's note that in the case of internal sale of network adjustments above the financial limit to downstream services "*so long as the treatment was transparent and in accordance with the RAP, BT could choose to separately capitalise the transfer charges within the relevant markets*".<sup>55</sup> This will allow us to account for the costs over the life-time of the assets being constructed which is the same treatment that we would expect external DPA customers to use.
- 4.15 We propose to discuss with Ofcom on the appropriate capitalisation policy in this context e.g. whether we should capitalise internal returns and over what life should we depreciate the assets.
- 4.16 We note that such a policy may differ from that adopted in the BT Group plc statutory financial statements. We would need to consider the implications of reporting this difference in the RFS.

#### Network adjustments below the financial limit

- 4.17 We agree with Ofcom's proposal that "*network adjustments below the financial limit be identified and recorded in BT's RFS separately from other infrastructure costs*".<sup>56</sup>
- 4.18 We disagree with Ofcom's proposal that "*in respect of network adjustments below the financial limit, BT must disclose the MCE attributed to each downstream markets as an appendix to the RFS.*"<sup>57</sup> For network adjustments below the financial limit, the MCE will remain on the books of the PI market and will be recovered through future charges to downstream markets and external customers. Therefore, a more relevant disclosure for stakeholders would be the total value of MCE in the PIA market relating to network adjustments under the financial limit and the split of this into those adjustments made at the request of external PI customers and those made for internal purposes.

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<sup>54</sup> Paragraphs A8.108 – A8.116 from the 2018 Wholesale Local Access Market Review Statement (2018 WLA Statement).

<sup>55</sup> Footnote 95 of the 2018 Reporting Consultation.

<sup>56</sup> Paragraph 4.14 of the 2018 Reporting Consultation.

<sup>57</sup> Ibid, paragraph 4.20.

## Market level information published in the RFS

4.19 Ofcom proposes that “...BT must publish the revenue, operating costs, mean capital employed and returns for the physical infrastructure markets”.<sup>58</sup> We agree that such publication is appropriate. We also agree with Ofcom’s proposal that “...in view of the expected low take up in the review period,...this reporting is done on a national basis at this stage.”<sup>59</sup>

## Service level information published in the RFS

4.20 We agree that Ofcom’s proposal that we should “... publish a separate section called “Review of Physical Infrastructure Markets””<sup>60</sup> is appropriate and consistent with requirements in all other regulated markets where a reporting remedy has been imposed.

4.21 We also agree with the proposal that “...WLA PIA service information is reported in the physical infrastructure markets rather than the WLA market...”<sup>61</sup> as this would be consistent with the market definition adopted in the 2018 PIMR Consultation, which changes the market classification of the WLA PIA services.

4.22 Ofcom further proposes that we should “... include revenue, volume, average price and FAC for all PIA services, split between internal and external customers at the level that they are regulated”<sup>62</sup> but recognises that “as set out in the 2018 WLA Statement we do not expect BT to be able to account for duct and pole services on an FAC basis until 2020-21”.<sup>63</sup>

4.23 While in general we agree such reporting would be appropriate, we note that this market review period is unusually short and that a full review of the regulatory and pricing structure will again be undertaken for the next, longer market review period.

4.24 In Openreach's response to the 2018 PIMR Consultation, it says that is crucial for the whole approach to pricing DPA to be reviewed by 2021 to ensure it allows for full cost recovery as unrestricted DPA take-up grows and the network transitions from copper to full fibre. Openreach states that it would like to work with Ofcom to explore future options in simplifying pricing but believes the prime objective should be to ensure certainty of cost recovery going forward.

4.25 Ofcom has recently published a consultation concerning a possible approach to regulation by geographic market.<sup>64</sup> In the consultation, Ofcom notes that “...Compared

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<sup>58</sup> Paragraph 4.18 in the 2018 Reporting Consultation.

<sup>59</sup> Ibid, paragraph 4.18.

<sup>60</sup> Ibid, paragraph 4.21.

<sup>61</sup> Ibid, paragraph 4.22.

<sup>62</sup> Ibid, paragraph 4.23.

<sup>63</sup> Ibid, paragraph 4.25.

<sup>64</sup> Refer to paragraph 2.7 of Ofcom’s “Promoting investment and competition in fibre networks consultation” published on 11 Dec 2018.

*with our historical approach, this will require us to think about the markets that we regulate differently.”*

- 4.26 Openreach’s review of the PIA pricing structure and changes that may arise from a new geographic approach to regulation mean that the structure of Openreach’s PIA pricing from 2020-21 is uncertain.
- 4.27 In this context we do not see merit in publishing detailed service and component information for a single year in a structure which may be modified significantly in all subsequent years.
- 4.28 Such information would only be published in the RFS in July 2021, by which time the next market review will be in place and the new reporting for that market could be very different. Presenting stakeholders with detailed information based on a structure that is no longer in place is inappropriate, would be unhelpful and could be confusing.
- 4.29 Accordingly we recommend that Ofcom’s proposals for 2019-20 reporting at service level should be extended also to 2020-21, i.e. that reporting of FAC at a service level should be deferred until 2021-22.
- 4.30 We agree that the internal consumption of PI assets in downstream services should be reported under the service “Internal Physical Infrastructure Rentals for Active Services” and that *“These will be imputed figures, the costs being the physical infrastructure consumed by active services based on current attributions methods, the revenue being the FAC plus the Openreach Copper WACC. Average prices and volumes will not be applicable.”*<sup>65</sup> We would expect that this service would include all active services, including FTTP rollout.

#### Private information – Additional Detailed Service Reporting

- 4.31 We disagree with Ofcom’s proposals *“that prices and volumes for disaggregated individual services where revenues are less than £5m but exceed £1m are not published but instead provided privately as part of the additional financial information”*.<sup>66</sup>
- 4.32 We consider that a threshold of “greater than £5m revenue” at the service level, consistent with the reporting requirements for other markets, would also be appropriate here:
- 4.32.1 Ofcom requires us to *“set out the revenues, volumes and FAC on a CCA basis of any other BCMR service not publicly disclosed where the revenue from this service is above £5m”*;<sup>67</sup> and

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<sup>65</sup> Footnote 104 in the 2018 Reporting Consultation.

<sup>66</sup> Paragraph 4.26 of the 2018 Reporting Consultation.

<sup>67</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex B, Additional Financial Information to be provided in respect of 2018 BCMR Markets, paragraph (i).

4.32.2 Ofcom requires us to “set out the revenues, volumes and FAC on a CCA basis of any other WLA service not publicly disclosed where the revenue from this service is above £5m”.<sup>68</sup>

#### Private Reporting - Updated Inputs for Calculation of the Maximum PIA Rental Charges

4.33 Ofcom proposes that we “...be required to provide an AFI named “updated inputs for Calculation of the Maximum PIA Rental Charges.””<sup>69</sup>

4.34 As we note in paragraph 4.26 above, Openreach’s review of the PIA pricing structure and changes that may arise from a new geographic approach to regulation mean that the structure of Openreach’s PIA pricing from 2020-21 is uncertain. Openreach proposes in its response to the 2018 PIMR Consultation to work with Ofcom to explore future options in relation to asset cost allocations and pricing structure. Should the pricing structure change significantly, then the receipt of prescribed information relating to the current pricing structure would not help Ofcom “design any future PIA price controls.”<sup>70</sup> We propose instead to share new information with Ofcom as the new pricing structure evolves.

#### Private reporting - Network Adjustments

4.35 Ofcom proposes we provide “...an AFI named “Network Adjustments” and this should set out, on an accumulated MCE basis, internal and external network adjustments below and above the limit across all downstream markets”.<sup>71</sup>

4.36 With regard to reporting accumulated MCE for network adjustments below the financial limit, Ofcom requires us to provide the information “disaggregated on a service basis”.<sup>72</sup> Our explanation above<sup>73</sup> on why we consider it inappropriate to report network adjustments below the limit on a downstream market basis, also applies here.

4.37 With regard to reporting accumulated MCE for network adjustments above the limit, we agree we “should set out the costs [we] have appropriately capitalised within the downstream markets”.<sup>74</sup>

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<sup>68</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex B, Additional Financial Information to be provided in respect of 2018 BCMR Markets, paragraph (iv).

<sup>69</sup> Paragraph 4.33 of the 2018 Reporting Consultation.

<sup>70</sup> Ibid, paragraph 4.33.

<sup>71</sup> Ibid, paragraph 4.34.

<sup>72</sup> Ibid, paragraph 4.35.

<sup>73</sup> See paragraph 4.18 of this document.

<sup>74</sup> Paragraph 4.36 of the 2018 Reporting Consultation.

## Network component information in the RFS

4.38 We agree with Ofcom's proposal that *"providing a cost breakdown by network component would not provide any additional information to stakeholders in this review period."*<sup>75</sup>

## New Duct and Pole network component

4.39 Ofcom proposes *"that instead of ten network components, BT should report against a single component "PI cost".*<sup>76</sup> We agree with Ofcom that the original component set in the 2018 WLA statement is no longer appropriate, given the proposed changes to DPA requirements set out in the 2018 PIMR consultation.

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<sup>75</sup> Paragraph 4.27 of the 2018 Reporting Consultation.

<sup>76</sup> Ibid, paragraph 4.43.

## 5. Regulatory financial reporting in relation to business connectivity reporting

- 5.1 In this section, we set out our comments on Ofcom’s proposed reporting requirements, as set out in Section 5 of the consultation, and our response to Question 5.1:

*Question 5.1: Do you agree with our proposals in respect of BT’s regulatory financial reporting requirements in relation to the business connectivity markets? Please set out your reasons and supporting evidence for your response.*

### General comments on market and service level information

- 5.2 We welcome Ofcom’s proposals for better focused reporting requirements in the BCMR market.
- 5.3 We agree that we should not be required to publicly disclose revenue, volume, average price and total FAC information for individual services and components where a cost-based charge control has not been applied.
- 5.4 This is in line with the regulatory reporting framework we discuss in paragraph 3.5 above. We agree that stakeholder interest is best served when there is a clear link between any pricing remedy imposed and information which we are required to publish.<sup>77</sup>
- 5.5 As stated in paragraph 2.3, our response to this reporting consultation assumes the implementation of the proposals that Ofcom sets out in that consultation; should proposals in any subsequent consultation or in Ofcom’s final statement differ from these, we expect Ofcom to amend its reporting proposals accordingly.
- 5.6 As stated in paragraph 2.5 above, these comments are made without prejudice to BT’s and Openreach’s comments in their respective responses to the 2018 BCMR consultation.

### Comments on public and private reporting of the BC market and technical areas

#### Public reporting of market level information for CI Access services

- 5.7 Ofcom proposes<sup>78</sup> we should publish revenue, operating costs, capital employed and returns for the CI Access and CI Inter-exchange markets where SMP has been determined. This includes publication of information at the geographic market level. Whilst we agree in principle with this proposal, we suggest the following amendment to CI Access Market reporting as detailed in table 5.1 below:

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<sup>77</sup> Paragraph 3.5 BT’s response to Ofcom’s Reporting Consultation 2018.

<sup>78</sup> Paragraphs of the 5.22-5.24 of the Reporting Consultation 2018.



**Table 5.1 – BT suggestion to publication of CI Access market at geographic market level**

Ofcom proposal	BT suggestion	Comment
Separately publish High Network Reach areas – Outside CLA	Separately publish High Network Reach areas – Outside CLA.	We agree with Ofcom proposal.
Separately publish BT+1 areas	Combine BT +1 and BT Only Areas.	See 5.8 below
Separately publish BT Only areas		

5.8 Amalgamating BT+1 and BT only, in terms of reporting, would align with Ofcom’s proposed price controls where they are the same as per the table below.<sup>79</sup>

Operator:  Bandwidth	Inter-exchange market			Access market			
	BT Only	BT+1 other	BT+2 or more	BT Only	BT+1 other	BT+2 or more (HNR areas)	
						Outside CLA	CLA
1 Gbit/s and below	Cap at current prices for stability QoS standards		None	Cap at current prices for stability QoS standards		Fair pricing <sup>(3)</sup>	None
Over 1 Gbit/s (VHB)	Safeguard cap at current prices QoS standards <sup>(1)</sup>		None	Safeguard cap at current prices QoS standards <sup>(1)</sup>		Fair pricing <sup>(3)</sup>	None
Dark Fibre, any bandwidth	Price at cost QoS standards <sup>(2)</sup>	None	None	None	None	None	None

Note: QoS standards (1) for Ethernet only (2) for Dark Fibre, from year 2 (3) Key Performance Indicators only.

5.9 Ofcom has proposed that revenues from the separate markets are combined into the following single baskets:

- Ethernet (1 Gbps and below) Services Basket;<sup>80</sup> and
- Ethernet and WDM (over 1 Gbps) Services Basket.<sup>81</sup>

5.10 As noted above,<sup>82</sup> we consider that stakeholder interest is best served when there is a clear link between any pricing remedy imposed and information which we are required to publish, and combining the two markets for publication would provide this link.

<sup>79</sup> Table 1.1 pg. 10, 2018 BCMR Consultation, Volume 1.

<sup>80</sup> Section 1, condition 10A, Annex 23 BCMR 2018.

<sup>81</sup> Section 2, condition 10A, Annex 23 BCMR 2018.

<sup>82</sup> Paragraph 5.4 BT’s response to Ofcom’s Reporting Consultation 2018.

5.11 External stakeholders do not require information broken down below basket level as the baskets that would be published “...provide reasonable confidence to stakeholders that the SMP provider has complied with its SMP conditions...”<sup>83</sup> and therefore, we do not believe that the separate public reporting of these two markets would provide them with any additional useful information.

#### Lifting of Low Bandwidth TISBO regulation

5.12 We welcome Ofcom’s proposal that the information for the Low Bandwidth TISBO market will no longer be required<sup>84</sup> following the proposal “...to de-regulate low bandwidth TI services throughout the UK”.<sup>85</sup>

#### Private reporting of service level information

5.13 We agree that it may be necessary for us to provide some information to Ofcom that is not published, so that Ofcom can “...make informed regulatory decisions and monitor compliance with SMP conditions...”.<sup>86</sup>

5.14 We recognise that it may be legitimate for Ofcom to require certain additional information privately “in relation to detailed business connectivity service information and business connectivity service component FACs”.<sup>87</sup>

5.15 We acknowledge that Ofcom may privately require detailed information of the BT+1 and BT only geographic markets within the CI Access market to inform regulatory decision-making.

#### Comments on proposed adjustments to be reflected in the RFS

##### Fibre valuation

5.16 Ofcom proposes that BT should use flat nominal indexation to compute the current cost of Access Fibre assets<sup>88</sup> rather than using the CPI index.

5.17 Our decision to use CPI in the 2017-18 RFS was to ensure consistency with the current cost valuation approach of copper cable services by indexing asset values to inflation as a premise of the regulatory asset base.

5.18 However, we recognise that Ofcom’s proposal is consistent with the treatment of its modelling in the 2018 BCMR Consultation. Consequently, we agree with Ofcom’s

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<sup>83</sup> Paragraph 2.2 of the 2018 Reporting Consultation.

<sup>84</sup> Ibid, paragraph 5.35.

<sup>85</sup> Paragraph 1.18 of the 2018 BCMR Volume 1 Consultation.

<sup>86</sup> Paragraph 3.47 of the 2018 Reporting Consultation.

<sup>87</sup> Ibid, paragraph 5.39.

<sup>88</sup> As stated in paragraph 3.53, Ofcom’s definition of Access Fibre includes the CJF class of work. We disagree that the CJF class of work should be categorised as Access Fibre. However, there would be no difference in the current cost valuation approach for CJF fibre and Access Fibre.

proposal that we should adopt the flat nominal indexation approach to compute the current cost of fibre assets in the RFS.

5.19 We suggest that Ofcom re-visits its modelling approach during the Integrated Market Review in 2020-21.

#### EE integration costs

5.20 Ofcom proposes that *“BT shall not attribute any costs relating to the acquisition of EE to the regulated markets. Ofcom has further stated that integration costs relating to the acquisition of EE (EE integration costs) have been attributed to the regulated markets and should be removed.”*<sup>89</sup>

5.21 We have not attributed any transactional costs relating to the acquisition of EE to the regulated markets in compliance with Ofcom’s legal direction in the 2016 Business Connectivity Market Review.<sup>90</sup>

5.22 EE integration costs were incurred subsequent to the acquisition of EE and relate to costs such as IT assets that were written-off as part of the EE and BT infrastructure integration. We consider such costs as restructuring costs and therefore we should be allowed to attribute these costs to the regulated markets.

5.23 We estimated that EE integration costs attributed to the Business Connectivity markets in 2017-18<sup>91</sup> amounted to [£<].<sup>92</sup> We have further estimated that total EE integration costs attributable to the regulated markets in 2018-19 will be less than [£<]. We do not expect this cost to increase further going forward.

5.24 There will no material impact to the unit FAC of regulated products and services and thus there will be no benefit to stakeholders by making this adjustment.

#### Excess Construction Charges (ECCs)

5.25 Ofcom proposes that: *“BT shall remove all capitalised costs from the Gross Replacement Costs (GRC) and Net Replacement Costs (NRC) for all network components that are attributed to ECC Services. The costs instead should be treated as operating expense. BT shall not capitalise ECC costs in the future”*.<sup>93</sup>

5.26 ECCs are charged to cover the additional costs of connecting end-user premises where this is above the limit included in a standard connection. Although we recognise the revenues for these services at the time of supply, we capitalise the costs in order to comply with IFRS, as we consider these as necessary costs to bring our network into operation and therefore should form part of its capital value.

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<sup>89</sup> Point 9 pg.17, Part 2: Annex 5 Draft Directions, 2018 Reporting Consultation.

<sup>90</sup> Point 1.2 pg. 220 Part 2: Direction, Final Annex 35, BCMR 2016.

<sup>91</sup> In 2016-17 the amount was [£<] as per 8<sup>th</sup> leased line charge control s.135 request, dated 20 July 2018

<sup>92</sup> Based on BT response to the 11<sup>th</sup> leased line charge control s.135 request, dated 12 December 2018.

<sup>93</sup> Point 9, pg.17, Part 2: Annex 5: Draft Directions, 2018 Reporting Consultation.

- 5.27 We appreciate that it is useful for Ofcom and other stakeholders to see the costs and revenues of the ECC services presented together in the same financial period, and therefore support Ofcom’s proposal to show such costs as expensed, not capitalised, in deriving the costs by service in the “Detailed Service Analysis” schedule within the RFS.
- 5.28 However, we consider that it is also useful for stakeholders to view the financial results by market, and for Openreach in total, using measures which correspond as closely as possible to those that we use in preparing our Annual Report and Accounts and under Generally Accepted Accounting Principles (GAAP). We consider that this approach aids comparability of these reports and provides assurance to stakeholders as to the objectivity of these results.
- 5.29 We therefore propose an adjustment line to be added to the “Detailed Service Analysis” schedule that would show the difference between ECC costs as expensed and the costs had they been capitalised under IFRS; this adjustment would ensure that the total of this analysis by market is prepared on an IFRS basis in this respect. Such a treatment would be similar to that proposed by Ofcom for adjustments to revenue under IFRS 15.<sup>94</sup>
- 5.30 We illustrate the above presentation in Annex 3.

### Openreach Repayment Works

- 5.31 Ofcom has proposed that:<sup>95</sup>

*5.31.1 BT remove all costs that have been capitalised in relation to repayment alterations and repayment damages, since the creation of Openreach, from the GRCs and NRCs of all network components used in regulated services.*

- 5.32 In response to a formal information request from Ofcom,<sup>96</sup> we stated that we are unable to provide actual data relating to repayment works pre 2009-10, as the Repayments Capital Programme is not available in our [§].
- 5.33 We propose that for the years where we do not have actual data,<sup>97</sup> we instead use an average of the cost of repayment works, by using information from the years where there is available data.
- 5.34 We believe this to be a suitable and proportionate solution to ensuring that we would comply with Ofcom’s proposal to remove all of the costs that have been capitalised in

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<sup>94</sup> Page 53, ‘Market/Technical Area Summary’, Annex 5: Draft Directions, 2018 Reporting Consultation.

<sup>95</sup> Point 11 pg.17, Part 2: Annex 5 Draft Directions, 2018 Reporting Consultation.

<sup>96</sup> BT Response to the 11<sup>th</sup> LLCC s135 dated 19 December 2018, Q13 Repayment works.

<sup>97</sup> We are required to only keep financial records for six years pursuant to S388 (4) (b) of the *Companies Act 2006*.

relation to repayment alterations and repayment damages since the creation of Openreach.

5.35 We welcome Ofcom's comments regarding this proposal and are willing to work with Ofcom to ensure a suitable solution is reached.

## 6. Regulatory financial reporting in relation to the wholesale broadband access markets

- 6.1 In this section, we set out our comment on Ofcom’s proposed reporting requirements, as set out in Section 6 of the consultation, and our response to Question 6.1.

*Question 6.1: Do you agree with our proposals in respect of BT’s regulatory financial reporting requirements in relation to the wholesale broadband access markets? Please set out your reasons and supporting evidence for your response.*

- 6.2 Our response to this section is discussed in paragraphs 3.39 to 3.46 of this document, where we agree that the network components list in the Network Components direction should be consistent with the RFS. However a more flexible mechanism should be allowed, to make changes to the network components list.

## 7. Glossary

- AFI. Additional Financial Information
- AMD. Accounting Methodology Document
- BCMR. Business Connectivity Market Review
- CCA. Current cost accounting
- CCN. Change control notification
- CI. Contemporary Interface
- CJF. Core Junction Fibre
- CLA. Central London Areas
- CPI. Consumer Price Index
- DLE. Digital Local Exchange
- DLRIC. Distributed Long Run Incremental Cost
- DPA. Duct and Pole Access
- DSAC. Distributed Stand Alone Cost
- ECCs. Excess Construction Charges
- FAC. Fully allocated cost
- FTTP. Fibre to the premises
- GAAP. Generally Accepted Accounting Principles
- Gbps. Gigabits per second
- GRC. Gross replacement cost
- HCA. Historic Cost Accounting
- IFRS. International Financial Reporting Standard
- LRIC. Long Run Incremental Cost
- MCE. Mean Capital Employed
- NRC. Net Replacement Cost
- NUD. No undue discrimination
- PAC. Previously Allocated Cost
- PI. Physical Infrastructure
- PIA. Physical Infrastructure Access

- PIMR. Physical Infrastructure Market Review
- RAP. Regulatory Accounting Principles
- RFS. Regulated Financial Statements
- ROCE. Return on Capital Employed
- SLG. Service Level Guarantee
- SMP. Significant Market Power
- TI. Traditional Interface
- TISBO. Traditional Interface Symmetric Broadband Origination
- uDPA. Unrestricted Duct and Pole Access
- WACC. Weighted average cost of capital
- WBA. Wholesale Broadband Access
- WLA. Wholesale Local Access



## 8. Annex 1: Proposed changes to legal instruments based on our response to Section 3 of the 2018 Reporting Consultation

### Proposed changes regarding the attribution of cumulo costs to regulated markets in 2019-20

#### 8.1 Proposed change to the definition of Cumulo Relevant Network Services:<sup>98</sup>

- 8.1.1 “Cumulo Relevant Network Services” means the Network Services other than Physical Infrastructure Access Network Services and Dark Fibre Access Network Services ~~sold to Communications Providers other than BT.~~

#### 8.2 Proposed change to the definition of $nrc_{ij}$ <sup>99</sup> within the cumulo requirement:

- 8.2.1 “The Net Replacement Costs of the Cumulo Rateable Asset j, including assets within the internal charges for passive services, that has been attributed to service i.”

### Proposed change regarding allocation of general overheads

#### 8.3 Proposed change to the attribution of costs included in AG409:<sup>100</sup>

- 8.3.1 To remove the legal instrument in its entirety.

### Proposed changes to the form and content within certain BT wide schedules in the RFS<sup>101</sup>

#### 8.4 Proposed changes to the Performance Summary by Market schedule:

- 8.4.1 Reduce reporting for *Rest of BT Residual* costs; and
- 8.4.2 Add *Eliminations* lines to remove double counting.

#### 8.5 Proposed changes to the Attribution of Wholesale Current Costs schedule:

- 8.5.1 Reduce reporting for *Rest of BT Residual* costs;
- 8.5.2 Remove *External Revenue* column;
- 8.5.3 Combine *General Support* and *General Management* costs; and
- 8.5.4 Add *Eliminations* lines to remove double counting.

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<sup>98</sup> Annex 5 of the 2018 Reporting Consultation, Direction 2, Schedule C, paragraph 1e.

<sup>99</sup> Annex 5 of the 2018 Reporting Consultation, Direction 2, Schedule C, Part 2, paragraph 1

<sup>100</sup> Annex 5 of the 2018 Reporting Consultation, Direction 2, Schedule B.

<sup>101</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex A. Note that the proposed changes stated here exclude general formatting and spelling changes which have been incorporated into our proposed schedules below.

- 8.6 Proposed changes to the Attribution of Wholesale Current Cost MCE schedule:
  - 8.6.1 Reduce reporting for *Rest of BT Residual* costs;
  - 8.6.2 Rename *Access – Duct* to *Duct*;
  - 8.6.3 Include *Investments* column within *Other*; and
  - 8.6.4 Add *Eliminations* lines to remove double counting.
- 8.7 Proposed changes to the BT Reconciliation Statement – Consolidated Profit and Loss Account schedule:
  - 8.7.1 Remove Northern Ireland Networks as a reconciling item from 2019-20.

Performance Summary by Market or Technical Area  
For the year ended 31 March 20XX

Section	Internal Revenue £m	External Revenue £m	Total Revenue £m	Operating Costs £m	Depreciation £m	Holding (gain)/loss £m	Supp. Dep. £m	Other CCA Adjs. £m	Roundings £m	Total CCA Operating Costs £m	Return £m	Mean Capital Employed £m	Return on MCE %
<b>Openreach</b>													
<b>Market Review 1</b>													
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
<b>Market Review 2</b>													
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
<b>Total Openreach SMP Markets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xx%</b>
Openreach Residual	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
Eliminations	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
<b>Total Openreach</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xx%</b>
<b>Rest of BT</b>													
<b>Market Review 1</b>													
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
<b>Market Review 3 etc</b>													
Market/Technical Area 1		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
<b>Total Rest of BT SMP Markets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xx%</b>
Rest of BT Residual	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
<b>Total Rest of BT</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xx%</b>
Eliminations	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xx%
Roundings	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
<b>Total Markets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xx%</b>
<b>Total SMP Markets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xx%</b>

Attribution of Wholesale Current Costs  
For the year ended 31 March 20XX

Section	EOI Input Prices £m	Provision / Maintenance £m	Network Support £m	General Management £m	Accommodation £m	Other Costs £m	Total Operating Costs £m	Land and Buildings £m	Access £m	Switch, Duct and Transmission £m	Other Related £m	Total Depreciation £m	Total HCA Operating Costs £m	Holding (gain)/loss £m	Supp. Dep. £m	Other CCA Adjs. £m	Roundings £m	Total CCA Operating Costs £m
<b>Openreach</b>																		
<b>Market Review 1</b>																		
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Market Review 2 etc</b>																		
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total Openreach SMP Markets</b>		<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
Openreach Residual		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Eliminations		xxx					xxx						xxx					xxx
<b>Total Openreach</b>		<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Rest of BT</b>																		
<b>Market Review 1</b>																		
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Market Review 2</b>																		
Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total Rest of BT SMP Markets</b>		<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Total SMP Markets</b>		<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
Rest of BT Residual							xxx					xxx	xxx					xxx
Eliminations		xxx					xxx					xxx	xxx					xxx
Roundings		xxx					xxx					xxx	xxx					xxx
<b>Total Markets</b>							<b>xxx</b>					<b>xxx</b>	<b>xxx</b>				<b>xxx</b>	<b>xxx</b>

Attribution of Wholesale Current Cost Mean Capital Employed  
For the year ended 31 March 20XX

	Section	Land & Buildings £m	Access - Copper £m	Access - Fibre £m	Duct £m	Less Government Grants £m	Switch £m	Transmission £m	Other £m	Total Non-current Assets £m	Internal £m	External £m	Total Current Assets £m	Internal £m	External £m	Total Current Liabilities £m	Total Assets less Current Liabilities £m	Provisions £m	Roundings £m	Total Mean Capital Employed £m
<b>Openreach</b>																				
<b>Market Review 1</b>																				
	Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Market Review 2</b>																				
	Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total Openreach</b>																				
			xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Openreach Residual		xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Eliminations		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total Openreach SMP Markets</b>																				
			xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Rest of BT</b>																				
<b>Market Review 3</b>																				
	Market/Technical Area 1	x.x	xxx	xxx	xxx	xxx		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Market Review 4 etc</b>																				
	Market/Technical Area 1		xxx	xxx	xxx	xxx		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Market/Technical Area 2 etc	x.x	xxx	xxx	xxx	xxx		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total Rest of BT SMP Markets</b>																				
			xxx	xxx	xxx	xxx		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>Total SMP Markets</b>																				
			xxx	xxx	xxx	xxx	(xxx)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Rest of BT Residual									xxx			xxx			xxx	xxx	xxx		xxx
	Eliminations									xxx			xxx			xxx	xxx	xxx		xxx
	Roundings									xxx			xxx			xxx	xxx	xxx		xxx
<b>Total Markets</b>																				
										xxx			xxx			xxx	xxx	xxx		xxx

**Reconciliation statement - Income Statement**

For the year ended 31 March 20XX

	Openreach			BT Group plc		
	Revenue	Operating Cost	Return or Operating Profit	Revenue	Operating Cost	Return or Operating Profit
	£m	£m	£m	£m	£m	£m
<b>As in the Annual Report and Form 20-F</b>	x	x	x	x	x	x
<b>Adjustments</b>						
Specific items	x	x	x	x	x	x
Use of Technology assets	x	x	x	x	x	x
Other trading differences	x	x	x	x	x	x
Net short term interest	x	x	x	x	x	x
Share of post tax (profit) / loss of associates and joint ventures	x	x	x	x	x	x
Other adjustment(s) as required	x	x	x	x	x	x
CCA adjustments	x	x	x	x	x	x
Roundings	x	x	x	x	x	x
<b>As in the RFS</b>	x	x	x	x	x	x

For the year ended 31 March 20XX-1

	Openreach			BT Group plc		
	Revenue	Operating Cost	Return or Operating Profit	Revenue	Operating Cost	Return or Operating Profit
	£m	£m	£m	£m	£m	£m
<b>As in the Annual Report and Form 20-F</b>	x	x	x	x	x	x
<b>Adjustments</b>						
Specific items	x	x	x	x	x	x
Use of Technology assets	x	x	x	x	x	x
Other trading differences	x	x	x	x	x	x
Net short term interest	x	x	x	x	x	x
Share of post tax (profit) / loss of associates and joint ventures	x	x	x	x	x	x
Other adjustment(s) as required	x	x	x	x	x	x
CCA adjustments	x	x	x	x	x	x
Roundings	x	x	x	x	x	x
<b>As in the RFS</b>	x	x	x	x	x	x

**Reconciliation statement - Mean Capital Employed - BT Group plc**

As at 31 March

	20XX £m	20XX-1 £m
<b>Total assets less current liabilities as in the Annual Report and Form 20-F</b>	x	x
<b>Adjustments</b>		
Corporate taxes	x	x
Long term loans due in <1 year	x	x
Derivative financial instruments	x	x
Other adjustment(s) as required	x	x
Closing HCA capital employed as at 31 March	x	x
CCA adjustments	x	x
Roundings	x	x
Closing CCA capital employed as at 31 March	x	x
Opening CCA capital employed as at 1 April	x	x
<b>Total CCA mean capital employed in the RFS</b>	<b>x</b>	<b>x</b>

	Mean Capital Employed 20XX £m	Mean Capital Employed 20XX-1 £m
<b>Openreach</b>		
Market 1	x	x
Market 2 etc	x	x
<b>Total Openreach SMP</b>		
<b>Rest of BT</b>		
Market 1	x	x
Market 3 etc	x	x
<b>Total Rest of BT SMP</b>		
Openreach Residual	x	x
Rest of BT Residual	x	x
<b>Total CCA mean capital employed in the RFS</b>	<b>x</b>	<b>x</b>

**Adjusted financial performance at a market review level**  
For the year ended 31 March 20XX

	As reported								Estimated impacts				Revised return				
	Revenue £m	HCA Costs £m	CCA		CCA		Return £m	MCE £m	Return on MCE %	Revenue £m	CCA		Return £m	MCE £m	Revised Return £m	Revised MCE £m	Revised Return on MCE %
			Adjustments £m	Roundings £m	Operating Costs £m	Costs £m					Operating Costs £m	Costs £m					
Market Review 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Market Review 2 etc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	Estimated impacts			
	Revenue £m	CCA Operating Costs £m	Return £m	MCE £m
Adjustment a	-	-	-	-
Adjustment b etc	-	-	-	-
	-	-	-	-



## Proposed changes to the Network Components Direction

### 8.8 Proposed changes to the network component list in the Network Components Direction:<sup>102</sup>

#### 8.8.1 Components to remove from the network component list:

- Low TISBO 3rd Party Equipment Depn (retract from 2019/20)
- Medium TISBO 3rd Party Equipment Depn (retract from 2018/19)
- High TISBO 3rd Party Equipment Depn (retract from 2018/19)
- Service Centre – provision WLR NGA (retract from 2018/19)
- AISBO Excess construction (retract from 2018/19)
- TISBO Excess construction (retract from 2019/20)

#### 8.8.2 Components to add in 2018/19 to the network component list:

- Pair gain
- Expedite Provision Costs
- Ofcom Administration Fee Wholesale
- Ofcom Administration Fee Openreach
- Openreach Managed Services for Wholesale
- NGA E side Copper Capital
- FTTP Development
- Service Centre Assurance NGA
- SLG WLA Int
- SLG Ethernet Provision Int
- SLG Ethernet Assurance Int
- SLG WLR Provision Int
- SLG WLR Assurance Int
- Cumulo Rates NGA
- Cumulo Non NGA BTW
- Cumulo Non NGA OR

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<sup>102</sup> Annex 5 of the 2018 Reporting Consultation, Direction 6, Schedules A and B.

- GEA FTTP Access Fibre Spine
- GEA FTTP Distribution Fibre
- GEA FTTC Access Fibre Spine
- GEA FTTC Distribution Fibre
- GEA FTTC Electronics
- GEA DSLAM Cabinets
- GEA FTTC Customer Site Installation
- GEA FTTC Repairs
- GEA FTTP Repairs
- GEA FTTP Provisions
- GEA FTTC Provisions
- GEA FTTP Electronics
- GEA Cable Links
- GEA FTTP Customer Site Installation
- FTTP Funded Fibre Rollout Spend
- FTTP Fibre Rollout Funding
- FTTC Fibre Rollout Funding
- FTTC Funded Fibre Rollout Spend

### Proposed changes to other legal definitions

#### 8.9 Proposed change to the definition of MCE: <sup>103</sup>

##### 8.9.1 To define MCE as follows:

- Total assets less current liabilities and provisions (excluding corporation tax, current borrowings, derivative financial liabilities and finance lease creditors), less deferred and current tax assets, derivative financial assets and retirement benefit assets. The mean is computed from the start and end values for the period.

#### 8.10 Proposed change to the definition of Access Fibre Cable:<sup>104</sup>

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<sup>103</sup> Ibid. Schedule C, paragraph 1q.

<sup>104</sup> Ibid. Schedule C, Part 1, paragraph 1a.

8.10.1 “Access Fibre Cable” means the fibre cable from BT exchange to the end user’s premises as per BT’s Accounting Methodology Document. This will cover the fibre assets included within the following Classes of Work;

- i. LFSC Local Line Of Spine Cable
- ii. LFDC Local Line Of Distribution Cable
- ~~iii. C/J Junction Cable Optical Fibre~~

8.10.2 “**Backhaul and Core Fibre Cable**” means fibre cable between BT exchanges. This will cover the fibre assets included within the following Classes of Work:

- i. C/J Junction Cable Optical Fibre

## 9. Annex 2: Proposed changes to legal instruments based on our response to Section 4 of the 2018 Reporting Consultation

### Proposed changes to network adjustments above the financial limit

9.1 Proposed change to legal direction relating to Network Adjustments above the financial limit to ensure consistency with main body of the consultation: <sup>105</sup>

9.1.1 In the case of costs incurred for Network Adjustments that BT undertakes for itself that are above the Financial Limit, BT shall ensure that all these Network Adjustments costs above Financial Limit are treated as an operating ~~income~~ cost in the 2018 PIMR Markets ~~and the recovery of these cost from third parties is treated as an operating income in the 2018 PIMR Markets.~~<sup>106</sup> *but BT may choose to capitalise them within relevant downstream markets so long as the treatment is transparent and in accordance with the RAP.'*

### Proposed changes to network adjustments below the financial limit

9.2 Proposed changes to the disclosure of the MCE of network adjustments below the financial limit as discussed in paragraph 4.18 above:

9.2.1 **Remove**<sup>107</sup>:

Appendix for Physical Infrastructure Market (for the Financial Year 2019/20 onwards)

	Internal Openreach Accumulated MCE £'m	Internal rest of BT Accumulated MCE £'m	External Accumulated MCE £'m
<b>Network Adjustments below the Financial Limit</b>			
Total below the limit Network Adjustments included in WLA	x	x	x
Total below the limit Network Adjustments included in BCRM Markets	x	x	x
Total below the limit Network Adjustments included in Narrowband Markets	x	x	
Total below the limit Network Adjustments included in Other SMP Markets	x	x	
Total below the limit Network Adjustments included in Residual Markets	x	x	
	x	x	x

(where > £5m, total internal and external)

9.2.2 **Replace with:**

<b>Network adjustments below the financial limit</b>	Accumulated MCE £'m
Total below the limit Network Adjustments included in external PI rentals	x
Total below the limit Network Adjustments included in internal PI rentals	x
	x

<sup>105</sup> See footnote 95 of the 2018 Reporting Consultation.

<sup>106</sup> Annex 5 of the 2018 Reporting Consultation, Direction 2, Schedule C, Part 2, paragraph 6.

<sup>107</sup> Annex 5 of the 2018 Reporting Consultation, Direction 8, Annex A, Appendix for the Physical Infrastructure Market (for the Financial Year 2019/20 onwards)

## Proposed changes to private information – additional detailed service reporting

9.3 We propose that the requirement to provide the following AFI schedules is removed following our discussion in paragraphs 4.31 to 4.37 above:

<b>Reference in Annex B of the 2018 Reporting Consultation<sup>108</sup></b>	<b>AFI schedule</b>	<b>Reason to remove</b>
Additional Financial Information to be provided in respect of the 2018 PIMR Markets (combined) schedule (i) – For the purposes of FY 20/21	Additional Detailed Revenue and volume information for physical infrastructure access services.	We do not believe we should be directed to provide this information since the normal level of granularity in the RFS is £5m.
Additional Financial Information to be provided in respect of the 2018 PIMR Markets (combined) schedule (ii) – For the purposes of FY 19/20	Updated inputs for our calculation of the physical infrastructure access maximum rental charge.	We do not believe we should be directed to provide this information in the form of a prescribed AFI since the relevant information required by Ofcom’s modelling may change as a result of the pricing structure review.
Additional Financial Information to be provided in respect of the 2018 PIMR Markets (combined) schedule (iii) - For the purposes of FY 19/20	Network Adjustments; specifically the requirement to provide detailed MCE data for all markets >£1m	We do not believe we should be directed to provide this information since the normal level of granularity in the RFS is £5m.  Also refer to paragraphs 4.35 to 4.37.

<sup>108</sup> These AFIs are currently disclosed in Annex B, Direction 5 of the Annex to the 2018 Reporting Consultation.

## 10. Annex 3: Proposed changes to legal instruments based on our response to Section 5 of the 2018 Reporting Consultation

### General proposed changes

10.1 Proposed change to description of EAD connections<sup>109</sup> to ensure consistency with main body of the consultation:

10.1.1 “EAD Connections” to be amended to “EAD 1Gbit Connections”.

### Proposed change to the disclosure of Excess Construction Charges (ECCs)

10.2 Proposed adjustment line to be added to report ECCs as discussed in paragraph 5.29 above.

#### Market/Technical Area Summary 20XX

Summary for Market 1/Technical Area 1 etc

For the year ended 31 March 20XX

	Internal Revenue £m	External Revenue £m	Total Revenue £m	Internal Volume	External Volume	Measure	Average Internal Price £	Average External Price £	Internal FAC £m	External FAC £m	Total FAC £m
Basket 1											
Sub basket 1	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
Basket 2 etc	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
Sub basket 1	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
Single Charge 1 (if applicable)	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
Single Charge 2 (if applicable)	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
Specific services required to be shown separately by Ofcom (if applicable)	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
Other (if applicable)	x.x	x.x	xx	xx	xx	xx	xx	xx	xx	xx	xx
<b>Total Market 1 etc</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>
<i>Excess Construction Charges (ECC) Adjustment</i>									x.x	x.x	x.x
<b>Total Market 1 etc including ECC Adjustment</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>	<b>x.x</b>

<sup>109</sup> Annex 5 of the 2018 Reporting Consultation, Annex A, Notes to the statement entitled “Market/Technical Area Summary” point 13, sub point b and Annex A, Notes to the statement entitled “Market/Technical Area Calculation of FAC based on component costs and usage factors” point 4 sub point a.