



January 2018

Response to Ofcom: Regulatory Financial Reporting

UKCTA is a trade association promoting the interests of fixed-line telecommunications companies competing against BT, as well as each other, in the residential and business markets. Its role is to develop and promote the interests of its members to Ofcom and the Government. Details of membership of UKCTA can be found at www.ukcta.org.uk.

The Importance of Quality Regulatory Accounting to UK Consumers

UKCTA members are well aware of the benefit that reliable and accurate Regulatory Accounting output can provide. The Regulatory Financial Statements are one of the key planks of the UK Regulatory Framework, helping stakeholders and Ofcom understand what remedies are both required and how effective those remedies have been. They help stakeholders engage with the regulatory process, providing consistent, comparable information year after year. They help Ofcom understand markets, helping to produce better regulation to benefit end consumers.

The regulatory accounts have come a long way in the last decade. In 2008 we were facing into our first significant re-statement of the numbers as BT attempted to avoid overcharging claims relating to the subsequently upheld investigation into overcharging for partial private circuits. That proved to be the first of a number of episodes that shook stakeholder trust in the RFS numbers being produced. As further restatements and attribution changes occurred, many of which appeared to be primarily motivated by BT's own direct commercial interest, rather than a fair and impartial view of the numbers, trust was further eroded.

Over the past five years Ofcom has worked hard to try and rebuild trust in the accounts, first through improvements in the process around their production, with BT having to declare in advance significant changes that impact the numbers, with Ofcom then having the right of veto if concerns are apparent. This ensures BT is now mindful of what changes can be attempted. The work done in the cost attribution review by both Ofcom and Cartesian was also a significant step forward, helping to remove errors, correct inappropriate attribution and bring a level of fairness and rigour to the accounts that was previously lacking.

This process of trust restoration is not yet over, and there remains work to be done, including a comprehensive review of the LRIC model, ensuring BT is not able to exploit its almost free hand in the assumptions used and the lack of audit of the model itself. The model still has a significant bearing on the numbers produced for regulated charges, so it is important that where it is used, it is understood, audited and fair. Today this remains an aspiration that Ofcom must deliver, for nearly 10 years we have been using outputs from this model, without the means to either properly understand or assure ourselves of its accuracy.

As services fall out of price regulation, but continue to be classified as SMP, we must continue to ensure regulatory accounting output is produced and published, particularly where common assets

are shared between regulated and unregulated services. Ofcom must build on the positive work undertaken in the past five years and restore stakeholder trust in the accounts so that they deliver their intended purpose. The cost of their production is insignificant in comparison to the benefit they deliver for consumers, providing cost indications where there is market failure and in the absence of peer comparisons. Regulatory Accounting should remain a key priority for Ofcom, with more focus devoted to it in the years ahead. We encourage Ofcom to build on the work already undertaken to restore trust, ensuring the accounts evolve to better protect the consumer interest by tackling the significant information asymmetry that exists between BT and Ofcom and BT and other communication providers buying its wholesale products in SMP markets.

Ofcom's proposals for the WLA market

We agree that the current level of regulatory reporting does not allow for the effective monitoring or compliance validation of any duct access remedy. UKCTA members believe the DPA remedy could become very important and that lack of any detailed costing information from BT is concerning. We would welcome enhancements around:

- The accuracy of data: it is important to ensure that the data used reflects the actual duct costs and its allocation to the services and products.
- Fixed asset register: this drives the input costs that are distributed into BT's regulated products and services and therefore it is vital that this reconciles at a detailed level to BT's actual physical infrastructure.
- Updated BT Duct Survey: current apportionment between cable types is done using data from 1997. This data is 21 years old and the amount of copper and fibre is likely to have significantly changed over that time. This should be revisited.

UKCTA members support the implementation of the ten proposed new network components proposed by Ofcom. It is important that duct costs are mapped to network components which are then ultimately consumed by regulated and unregulated services. We also consider it is important, at a total level, to see that duct costs are apportioned equitably to ensure that BT is fairly recovering its duct costs from regulated and unregulated services.

UKCTA members agrees with the revised treatment for ancillary services proposed. It is essential that the network components are reported at the same level at which they are regulated. UKCTA does however not understand why it is necessary for Ofcom to mandate that activities charged as part of one-off or connection charges are not capitalised. Whilst we fully support Ofcom's proposal, we do not understand why BT would not recognise revenue and costs together in line with general accounting principles.

UKCTA agrees with Ofcom's proposal to ensure the 2017/18 RFS is consistent with the 2017 WLA consultation and allocate Cumulo costs according to this revised basis. As a general principle BT should not be making any profit or mark-up on Cumulo rates.

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