

Annex 3 – BT Revenue Assumptions

We propose to identify revenues based upon:

- Connected premises
- Churn rates
- Average revenues

We propose to calculate net incremental revenues by comparing volumes × average revenue per user (ARPU) under 2 scenarios.

We have developed “Do Nothing” (don't implement USO, i.e. counterfactual) and “Do Something” (implement USO, i.e. factual) scenarios. These contain the average monthly revenue for a circuit on copper broadband (for in scope premises under Do Nothing) and a blended rate of monthly revenue for customers on fibre. These are supported by management account metrics. We propose to determine the incremental direct revenues by calculating the difference between the Do Something and Do Nothing scenarios.

Separately, Openreach will supply the premises relevant to the claim in the “Premises” tab. We propose to take that number of premises and apply the difference in revenues between the Do Something and Do Nothing metrics described above for current revenue. This is in place of the Current Revenue worksheet in the model.

For future revenues, we propose to use the volume take up assumptions in the business model along with the ARPU per line. The ARPU assumption uses a blended retail price for fibre broadband (at various bandwidths including ultrafast). The volume take up assumption includes an estimated churn to other CPs over time – as customers may move to an alternative supplier once their initial contract period expires. When this occurs Openreach revenue is still retained, but retail revenue is lost.

The business model also details incremental operational costs incurred by Consumer, which we propose to include in the NPV template.

There are also additional Consumer costs that are detailed on a unit economics basis which we can include with a back up schedule into the “Other” costs on the NPV worksheet.

At the point of each claim we propose to verify and update the latest metrics to ensure that the claim is based on up to date factual information and uses reasonable assumptions where factual data is not available.

Inputs and assumptions on revenues and costs

Inputs to revenues		Assumptions	Source
Wholesale			
A.	Wholesale volumes with USO		Factual from Openreach returns
B.	Wholesale volumes without USO		Counterfactual
C.	Incremental wholesale costs (excluding direct build costs as separately itemised)		
D.	Wholesale prices	Blended prices for FTTP	
E.	Wholesale prices without USO	Blended prices current	
F.	Calculation of incremental revenues		$A \times D - B \times E$
F2	After deduction of incremental Wholesale costs		$F - C$
Retail			
G.	Consumer volumes with USO		Factual
H.	Consumer volumes without USO		Counterfactual
I.	Incremental Consumer costs (excluding costs separately itemised)		
J.	Consumer prices	Blended prices for FTTP	
K.	Consumer prices without USO	Blended prices current	
L.	Remove incremental wholesale revenues on internal sales (Consumer costs)		
M.	Calculation of incremental Consumer revenues		$G \times J - H \times K$
M2	After deduction of incremental Consumer costs		$M - I - L$