

**Stakeholder queries on Ofcom’s 11 July 2013 Consultation (updated on 20 August 2013):
Fixed access market reviews: Approach to setting LLU and WLR charge controls**

Stakeholder	Condoc page number / Excel document name	Condoc para ref/ worksheet name	Stakeholder query	Ofcom response
BT	FAMR LLU WLR 2013 RAV Model	Assumptions	<p>The last two lines of the “Assumptions” sheet in the RAV model refer to drawing duct and cable capex numbers from the WLR/LLU model. It mentions the “asset value adjustment” sheet but there isn’t such a sheet in the WLR/LLU model.</p> <p>Can Ofcom clarify what is meant please and where the capex figures in the RAV model come from?</p>	<p>The ‘Assumptions’ sheet of the FAMR LLU WLR 2013 RAV Model refers to an ‘asset value adjustment’ sheet. This is a reference to the ‘asset value adjustment’ sheet, which is in the confidential version of the Cost Model. In the non-confidential published version of the Cost Model, Stakeholders can locate Ofcom’s proposed forecast of capital expenditure in the ‘Cable RAV model’ and ‘duct RAV model’ sheets.</p> <p>The calculation of Ofcom’s forecast duct and cable capital expenditure is explained in Section 6, paragraph 6.112 of the consultation</p>
BT	Annex 7: Efficiency	A7.26	<p>In paragraph A7.26 on Efficiency, Ofcom make reference to an analysis it has undertaken of BT’s published RFS data in order to estimate Openreach’s opex efficiency savings over the past three years. Can Ofcom provide further details of this analysis to explain how it arrived at a figure of 6%?</p>	<p>Paragraph A7.26 provides a top level description of our approach. We analysed year on year changes in operating costs (HCA costs less depreciation) for the WLA and WAEL markets combined; adjusting for volume and input price changes. The 6% figure was based on averaging the changes over the past 3 years by both looking at the figures on a real unit cost basis and overall with volume and inflation impacts removed. The volumes considered were total rental volumes of MPF and WLR, excluding SMPF (that is, MPF + WLR basic + WLR premium).</p>

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TalkTalk Group	Section 6: Charge control cost modelling	Table 6.8 2016/17 FAC of WLR and LLU Rental services (nominal terms)	How/where are tie cable costs included in the MPF, WLR, SMPF cost stacks (i.e. the tie cables that are included in the rental charges, as against the tie cables that are purchased separately by CPs)	There are two tie cables included in the MPF rental cost stack (related to the TAM) and these are included within the 'Broadband line testing systems' cost component. One tie cable should be included in the WLR rental cost stack and we understand that this is included in the PSTN line card cost. There is no tie cable included in the SMPF rental cost stack when there is no evoTAM (as both the extra tie cables are paid for separately). Any tie cables costs related to evoTAMs that are included in the SMPF rental cost stack would be included in 'Broadband line testing systems'. We are confirming our understanding on the allocation of tie cable costs with BT, especially in relation to where the WLR tie cable is recovered. We are continuing to explore the issues around the composition and allocation of 'Broadband line testing systems', as explained in paragraphs 6.143-6.152.
TalkTalk Group	Annex 13: Detailed Cost Modelling Assumptions	A13.62	In A13.62 it shows the combi line card cost as having fallen from about 10% of the total cost in 2010/11 to about 3%. What is the explanation for this?	Whilst the 'PSTN Linecards' average unit costs in BT's RFS has remained relatively steady from 2010-11 to 2011-12 (£8.51 in 2010-11, and £8.13 in 2011-12), the 'Combi Card voice' cost had moved significantly (£0.84 in 2010-11, and £0.24 in 2011-12). We are seeking further information from BT currently on these movements in costs.
TalkTalk Group	Annex 14: Treatment of cumulo rates		Can Ofcom provide the derivation/breakdown of cumulo costs (for each year)?	<i>Total BT Group cumulo (£m).</i> In paragraph A14.32 we noted that "our calculations, using publicly available information,

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	within the charge control		<ul style="list-style-type: none"> • Total BT Group cumulo (£m) • Allocation of cumulo to Openreach (£m) • Allocation to MPF (£m or £/line) • Allocation to WLR (£m or £/line) 	<p>suggest that total BT cumulo liabilities will have decreased from just over £135m in 2010/11 to around £98m in 2012/13". We then noted in A14.33 that we had been unable to find "a robust correlation between the changes to BT's rateable value and the number of MPF lines and so we had only been able to make relatively broad forecasts of BT's total cumulo liability". We went on to note that "total BT liabilities for the copper network might fall by 15-26% in nominal terms by 16/17 compared to around £92m in 2012/13". These estimates informed our view on the way that cumulo costs might change in the future but they were not used in the cost modelling. As noted in paragraph A14.52 Cumulo costs are embedded in the costs of various cost components. These were forecast forward using cost volume elasticities and estimates of efficiency and input price inflation in the model. Cumulo costs were not separately modelled.</p> <p><i>Allocation of cumulo to Openreach (£m).</i></p> <p>As noted in the response above the charge control model does not forecast cumulo costs separately, and hence it does not produce an allocation of cumulo costs to Openreach. BT provided us with information on how much of cumulo costs BT allocated to Openreach within its RFS in 2010/11 and 2011/12 and this is reported in paragraph A14.39. This allocation would have been implicit in the base year's cost data in the charge control</p>

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				<p>model.</p> <p><i>Allocation to MPF (£m or £/line) and Allocation to WLR (£m or £/line).</i></p> <p>As noted in the response above the charge control model does not forecast cumulo costs separately, and hence it does not produce an allocation of cumulo costs for MPF and WLR. The 2011/12 allocation within the RFS to WLR and MPF are given in paragraph A14.48. This allocation would have been implicit in the base year's cost data in the charge control model.</p>
TalkTalk Group	Annex 7: Efficiency	A7.23 , A7.24, A7.25	Can Ofcom provide ranges for the redacted efficiency numbers in section A7?	<p>BT have consented to the disclosure of the following Ofcom calculated figures relating to historical Openreach efficiency in Annex 7:</p> <ul style="list-style-type: none"> • In A7.23 value is 5% • In A7.24 value is 6% • In A7.25 values are 5% and 4% <p>We have considered the confidential nature of the information redacted in paragraphs A7.30-A7.35 and, in particular, whether the use of ranges would add anything to the information disclosed at A7.36. We do not consider that providing ranges would add anything to the figure of 4%-6% disclosed in A7.36. This is, in effect, the range of the confidential figures redacted in the text above.</p>

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TalkTalk Group	Section 6: Charge control cost modelling	Table 6.8 2016/17 FAC of WLR and LLU Rental services (nominal terms)	<ul style="list-style-type: none"> • What are e-side and d-side current costs? What are the reasons for cost differences (MPF, WLR, SMPF)? • Why is MPF frame current cost greater than WLR+SMPF? • Why is MPF drop maintenance greater than WLR+SMPF? 	<p>BT's DAM states that:</p> <ul style="list-style-type: none"> • the 'E-side Copper Current' cost component captures the current costs associated with the cable that links the local exchange to the primary cross connection point, the type of cost includes pay and stores, • the 'D-side Copper Current' cost component captures the current costs associated with the cable that links the primary cross connection point to the Distribution Point. <p>The reason for the cost differences between WLR Basic Rentals, MPF Rentals and SMPF Rentals, including for the cost components 'Local Exchange General Frames Current' and 'PSTN Drop Maintenance', are explained in our proposals on the service level and fault rate allocation and the derived usage factors we propose to apply. This explanation is set out in paragraph A13.110 to A13.149 within Annex 13 'Detailed Cost Modelling Assumptions' of the 'Fixed access market review: Approach to setting LLU and WLR Charge Controls' published 11/07/2013, with particular reference to paragraph A13.148 for the queries on 'Local Exchange General Frames Current' and 'PSTN Drop Maintenance'.</p>

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Talk Talk Group	Section 4: Charge Control Design	4.344	The second bullet of paragraph 4.344 implies that Ofcom does not have DSAC cost data for individual ancillary services whereas the third bullet of paragraph 4.344 suggests that you do have FAC and DSAC cost data. Can Ofcom explain what individual product level data cost data it possesses (FAC and/or DSAC)?	<p>We can clarify that we do not have cost information (neither FAC nor DSAC) on an individual product basis for the products in the baskets. However, we do have cost information for products at the aggregate level of RFS categories.</p> <p>In particular, we do have the FAC and DSAC in 2011/12, published in BT's RFS, for the aggregate RFS categories of Tie cables, Room Build and Hostel Rentals (among others listed in BT's RFS). When we say "we have cross checked that the proposed sub-caps will keep charges below projected DSACs" we mean this cross check at the aggregate level (using the reported DSACs for the aggregate products).</p>
			In relation to Ofcom's response (above) to TTG's query regarding paragraph 4.344, when Ofcom states it cross-checked at the aggregate level does it mean a check on tie-cables, room build, hostel rental together or that it checked each of tie-cable, room builds and hostel rental individually?	<p>When we say that we cross-checked at the aggregate level we mean a check on tie-cables, room build, hostel rental together. Our sub-cab robustness check calculations are publicly available in "Annex 12 – Cost Model" at http://www.ofcom.org.uk/static/models/LLU%20WL R%20model%20v13%20Redacted.xlsx.</p> <p>In particular, the cross check consists of the following steps:</p> <ol style="list-style-type: none"> 1) compute total revenue for Room build, Tie Cables and Hostel Rentals (RFS services)

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				<p>in 2016/17;</p> <p>2) compute DSAC for Room build, Tie Cables and Hostel Rentals (RFS services) together in 2016/17; and</p> <p>3) equate total revenue and DSAC as described above and compute the X such that would allow Openreach to recover the DSAC costs (rather than the FAC). This steps corresponds to cell “L66” of worksheet “X (Co-Mingling basket ACTUAL” in the Cost Model spreadsheet. This cell exhibits the percentage 2.41%, meaning that an hypothetical control CPI+2.41% for the Co-Mingling basket would allow Openreach to recover costs at the DSAC level. Thus, we considered that no charge in the Co-Mingling basket should be allowed to increase by more than CPI+2.41%.</p> <p>Given that we are proposing X=10.75% (i.e., CPI-10.75%), step 3 implies that sub-caps must be below 2.41% +10.75% (i.e. 13.16%). The sub-cap proposed in the consultation in the range 5% to 7.5% is below this figure.</p>

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Talk Talk Group	Section 6: Charge Control Cost Modeling	6.153 to 6.164	Ofcom only provides a figure at the aggregate level (54% of MPF rental FAC costs are LRIC, and 55% for WLR from §6.154). Can this be broken down to show LRIC (or LRIC % FAC) for the different cost categories.	<p>We discuss our approach to calculating LRICs at paragraphs 6.153 to 6.164 of our Consultation. The figures of 55% for WLR rentals and 54% for MPF rentals cannot be broken down by cost component. As we explained in paragraphs 6.156 and 6.158, the figures that we used are averages of the published historic service level ratios for 2009/10 and 2010/11. This information is publicly available in the BT Regulatory Financial Statements as follows:</p> <ul style="list-style-type: none"> (i) 2009/2010 RFS - see page 38 for WLR and page 55 for MPF); (ii) 2010/11 RFS - see page 37 for WLR and page 56 for MPF.
			<p>In relation to Ofcom's response (above) to TTG's query regarding paragraph 6.153 to 6.164, clarify whether the %s by cost component don't exist or they do exist but Ofcom cannot provide the data.</p> <p>Given the criticality of these LRIC figures, has Ofcom cross-checked the reliability of these figures?</p>	<p>We obtained LRIC data by component from BT – see para 6.155 of our Consultation. We scrutinised those figures and for the reasons given in the Consultation we did not consider that they should be used for the purposes of the Consultation. Instead, we estimated LRICs at a service level and used publicly available information in BT's Regulatory Financial Statements. As the LRIC data by component was not used to underpin the figures consulted upon and is not required for the purposes of the consultation, we do not intend to provide this data.</p>

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				<p>In terms of cross-checking, paragraph 6.156 of the Consultation confirms that we have analysed the published historic LRIC:FAC ratio for the WLA and WFAEL services and our view that these were relatively stable with no obvious distortions. We confirmed that the results were consistent with our understanding of the variability of product costs.</p> <p>Although we didn't use component level LRIC data for the purposes of the Consultation, this is an issue that we are considering further in the context of our work on LRIC:FAC ratios for the Statement.</p>