



BT's comments on Ofcom's consultation paper:

“Changes to BT and KCOM's regulatory and financial reporting 2009/10 update”

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Comments should be addressed to:

Eleanor Hampson, Head of Regulatory Reporting, pp 5.47B, Faraday Building, 1 Knighttrider Street, London EC4V 5BT

e-mail: eleanor.hampson@bt.com

Introductory comments

We continue to acknowledge the significance of financial reporting to effective regulation and invest substantial resources of about £8m per year to ensure we meet our regulatory obligations to provide a defined set of robust financial information in a timely manner through our annual regulatory financial statements (“RFS”).

However, we also continue to be concerned that the costs of producing the RFS in their current form are not justified by the benefits this actually delivers to Ofcom and other stakeholders. As such, we believe a fundamental review of regulatory reporting is long overdue. At a basic level this needs to revisit and re-establish the objectives of regulatory reporting and consider how any financial information produced by BT is likely to impact delivery of such objectives.

Our view that there is a need to transform the RFS currently produced to significantly reduce the level of detail to more appropriate levels reflecting the need for the RFS to be accessible and understandable to a broad range of stakeholders. The RFS have become extremely complex and we are now in a position where they are arguably only fully understood by a limited number of expert users of the accounts. Ongoing reporting requirements should also acknowledge that additional information is often produced for specific regulatory consultations and investigations. While we recognise that Ofcom has a number of resource challenges over the coming months given appeals on the LLU, WLR and PPC charge controls, we believe progress on this more fundamental review of regulatory reporting needs to begin as soon as those appeals are concluded.

We would also note that over the last year we have even struggled to make progress on agreeing some relatively minor changes to the way in which data is presented in the RFS. We made a number of proposals that we felt would improve the usability of the data which have not been included within this consultation. We would hope to be able to engage in a more constructive dialogue over the next year to ensure that – even if a more transformational review may not conclude in the next year – the 10/11 RFS can still include some pragmatic changes reducing the burdens on BT and improving clarity for users.

Finally, we would reiterate that it is critical to us that the ‘standard’ annual review of the reporting requirements is published as early in the previous year as possible to ensure we have sufficient time to make any required changes to systems, etc, ahead of publication of the RFS in July. This year’s consultation on the 09/10 RFS was published at a much earlier stage than last year’s consultation on the 08/09 RFS and this has been more helpful. However, as previously requested, we need the consultation to be routinely published before Christmas moving forward.

Question 1: Do you agree with Ofcom's proposed list of disclosed services in the AISBO market?

We do not agree with Ofcom's position which appears to require the reporting of revenues for Ethernet Backhaul Direct (EBD) and Ethernet Access Direct (EAD) even if revenues are below the £10m guidance threshold.

In 2008/09, turnover in the AISBO SMP market was around £494m and around £4.7bn across the defined "Access Markets". Requiring disclosure of revenues of services at levels beneath £10m therefore appears disproportionate. There should be a consistent cut off point where information is considered immaterial and it is unclear why Ofcom considers that these services should be treated differently. Should the amounts exceed £10m, BT will separately report these revenues.

Question 2: Do you agree with the proposal to remove BT's requirement to prepare A18?

Yes, we absolutely agree with Ofcom's proposal to remove BT's requirement to prepare A18 as this AFI relates to the Retail Markets where BT no longer has any reporting obligation.

Product	Description	Network Charge/Total Costs
		£k
P241	Inland Calls BT to Mobile Residential	X (in RFS)
P317	PSTN Local calls: Residential	X (in RFS)
P319	PSTN National calls: Residential	X (in RFS)
P501	Res Outgoing IDD Fixed Cat A - Competitive Route	X (analysed between Fixed and Mobile)
P503	Res Outgoing IDD Mobile Cat A - Competitive Route	X (analysed between Fixed and Mobile)
TOTAL		X (in RFS)

We also request that Ofcom reviews the necessity of the provision of the remaining AFIs BT provides on an annual basis, especially given the provision of the data extract tool which provides extremely granular information to Ofcom.

In 2007/08, we offered to voluntarily provide to Ofcom information to demonstrate the effective operation of non-discrimination in downstream markets (revenues and network charges by service for downstream products which receive inputs from the four BCMR markets). It was agreed with Ofcom that this information was to be provided on a one-off voluntary basis. No issues were raised about the application of the non-discrimination rule as

a result of this information. However, Ofcom formalised this “one-off” as an ongoing reporting requirement in 2008/09. We remain unconvinced by Ofcom’s rationale for the need for BT to provide downstream gross margin information as a rolling requirement in particular given that BT no longer has obligations to report to prepare and report on any retail markets. The disclosure of downstream margins in competitive markets raises clear concerns to BT and we do not think this requirement should continue.

Question 3: Do you agree with the proposed changes to the presentation of the RFS?

Deletion of Return on Turnover information

We agree with the proposed change.

Amalgamation of Depreciation and Supplementary Depreciation into one column

We disagree with the proposed amalgamation of HCA Depreciation and Supplementary Depreciation into one column on Annexes 11, 12 and 13.

This proposal is inconsistent with the presentation of HCA and CCA costs in the RFS e.g. on Annexes 5A, 7, 8, 15 and 19. As a result the proposed change is unhelpful and is very likely to confuse a reader of the accounts.

Instead, we proposed to Ofcom that the Market Summary Statements disclose “total CCA operating costs” as a single column instead of separate columns for operating costs, depreciation, holding gain (loss), supplementary depreciation, other adjustments and roundings as this information is duplicated in Annex 5A Section 6 (Attribution of Wholesale Current Cost and Mean Capital Employed).

Combination of “internal sales services only provided externally” with “internal sales services also provided externally” into one internal sales column.

The wording used in Section 3.18 fourth paragraph of the Consultation is incorrect and should refer to “Internal sales – services only provided internally”.

We agree with Ofcom’s proposal to report only one internal sales column as this will remove duplication. “Services only provided internally” are separately reported in the RFS as “sticks” in the calls markets. Each stick is an internal service sold only within BT.

Additional changes

As noted above in our introductory comments, we have provided Ofcom with further proposals to reduce duplication within the RFS and simplify the information currently reported to make this more user-friendly and fit for purpose to readers of the accounts.

For example, we proposed a consistent start point in the Profit and Loss and the Mean Capital Employed Reconciliation Statements. Currently, the Profit and Loss Reconciliation Statement starts with the Regulatory markets and reconciles this to BT's Annual Report, however the Mean Capital Employed Reconciliation Statement starts with BT's Annual Report and reconciles this to the Regulatory markets. Another example is the proposal for removal of duplication in information reported within the RFS to simplify the accounts.

We request that Ofcom review our form and content proposals and give serious consideration to these well in advance of consulting on the 2010/11 RFS (which as detailed above should be no later than the end of calendar 2010).

Question 4: Do you think we have fairly reflected the decisions of the relevant market reviews in the form and content of the RFS?

We think Ofcom has fairly reflected the decisions of the relevant market reviews in the form and content of the RFS with the exception of the following comments:

Implementation of the Business Connectivity Market Review (paragraphs 5.21 to 5.32)

The text at 5.21 to 5.32 and the diagram at page 20 do not accurately reflect the way in which we have adjusted reported numbers in the light of the deregulation of certain higher bandwidth PPCs within the defined CELA area. It also does not reflect the discussions we have had with Ofcom about this. Our methodology is actually based on the location of serving exchanges and Tier 1 nodes rather than on the location of Third Party premises and Points of Handover. Local end or PoH circuits provided off service exchanges in CELA and Distribution provided off Tier 1 nodes within CELA will be counted as CELA even in those cases where the relevant Third Party premises and/or PoH is outside of CELA.

As such, we would not count "Terminating segment A" in Scenario 1 of the diagram on page 20 as falling within CELA, but would count "Terminating segment A" in Scenario 3 of the diagram on page 20 as falling within CELA. The overall materiality of these differences is likely to be low given that the volume of circuits falling within Scenarios 1 and 3 is likely to be low and likely to balance out.

Cost of capital information (Paragraph. 5.54)

The consultation states that 10.1% should be applied to Openreach services and 10.6% to everything else. This is not correct. First, 10.1% only applies to Openreach copper services – i.e. WLR and LLU and associated ancillary services. Second, the value of 10.6% is the BT Group value, but is not applied to any service. The rest of BT value is 11.0% and is applied to all other regulated services, including wholesale Ethernet services.