A New Pricing Framework for Openreach

Second consultation

TalkTalk Group comments on BT's response

NON-CONFIDENTIAL

26 March 2008

INTRODUCTION

This document provides some comments on BT's response to Ofcom's second consultation which we believe are pertinent to Ofcom analysis of the appropriate prices for LLU and WLR charges. We would of course be happy to discuss these points with Ofcom which we believe would be useful given the complex nature of them.

Generally, we were disappointed by Openreach's response. Yet again they have made many baseless assertions and contentions with little evidence or cogent reasoning. Given the amount of relevant data they have in their possession the lack of evidence presented by them suggests that they are not providing more data since it would in fact provide yet more support for the case that the costs are too high.

BT have said in their submission that a number of the assumptions that were previously used in the modelling over-estimated the costs – for example, inflation should be lower, efficiency gains higher and fewer MPF lines. In addition BT have announced a pay freeze. The impact of these factors alone (on the Ofcom mid case) is that Openreach with no price increases will make excess profits on CRS services in 09/10 and in 10/11.

Therefore, there is no need to rebalance prices by increasing the MPF price for two years in order to allow BT to recover its costs or have an incentive to invest[1]. Thus, the sole benefit from an increase in MPF prices in the next two years is reducing the static inefficiency resulting from distorting downstream investment. This benefit would be a maximum of £3m a year[2].

Conversely, not increasing MPF prices will deliver substantial benefits which together are worth over £100m – for example:

- encouraging NGNs which are inherently more efficient and also having longer costly dual running of NGNs and legacy network
- increased incentive for cost minimisation
- more voice service and price innovation
- lower prices from increased competitive intensity
- Ramsey pricing benefits

Furthermore increasing MPF prices (in order to rebalance) will simply allow BT to increase its already excess profits by £10s millions.

It is simply incredible for Ofcom to support an MPF price increase.

The rest of this document provides our comments on this and a number of other issues the BT submission raised.

---

[1] The price of MPF remains above LRIC

[2] actually in the case of no rebalancing this cost could be eliminated if Ofcom clearly signalled its intent without making a price change

NO BENEFIT FROM ANY MPF PRICE INCREASE FOR AT LEAST TWO YEARS

BT say that the claimed imbalance between MPF/WLR prices and costs will reduce their ability and incentive to invest and not allow them to recover costs. For example:

> *"[The] price differentials between Openreach's key products which have produced a distorting arbitrage between MPF and WLR+SMPF which is unsustainable. This is an issue which must be addressed now. Failure to do so will have serious consequences – there will be no incentive to invest in either current or new services and products"* [BT §5b]
>
> *"to delay the increase (no immediate adjustment) would mean prolonging the current damaging under-recovery of costs and would limit our willingness and ability to invest "* [BT §6b]

This is simply not true – BT clearly have not grasped the basic concepts of economics. Provided that all services recover the incremental cost of provision and in total all common costs are recovered then there remains an incentive and ability to invest. MPF does fully recover its incremental costs and overall Openreach recovers all common costs. There is no lack of incentive to invest.

Further BT will more than fully recover its costs for at least 2 years as the numbers below show. BT have said in their submission that a number of the assumptions that were previously used in the modelling over-estimated the costs. For example:

- BT's pay freeze and lower inflation (2% not 3%)
- use of a 2.4%[3] efficiency improvement on all costs into 09/10 rather than 0.6% (as BT have suggested BT response §117)
- a slower shift to MPF (e.g. 2.8m fewer average MPF lines in 2010/11)

Below we provide a revised Ofcom 'mid' case[4] which shows BT will make an even higher excess profit for CRS in 09/10 and the previous forecast loss on CRS in 10/11 will actually be a profit. In other words they will be profitable in CRS for at least 2 years or more without any price increases.

To be clear we still believe that even these costs are massively overstated and profit understated

Revised mid case excess profit with no price increases

	09/10	10/11	
Excess profit (ORIGINAL)	73	-71	EBIT less allowable RoCE @10%
changes:			
Inflation	26	52	net impact on opex, depr, holding gain, RoCE
pay freeze	13	13	in addition to inflation, assume not repeated / not reversed
Efficiency	9	9	2.4% vs 1.8% in 09/10
fewer MPF lines	0	17	2.8m lines not on MPF, £6 per line 'profit' impact
Excess profit (REVISED)	121	19	

[3] we think Openreach can achieve far more than 2.4%

[4] As we have provided extensive evidence for in our submission, Ofcom's mid case (and low case) massively over-estimate the costs and so under-estimates the profit

Thus it is clear there is no need to increase price to allow BT to recover its costs or to maintain its incentive to invest.[5]

Therefore, the sole justification for rebalancing and increasing MPF prices in the next two years is the cost of the static inefficiency resulting from distorting downstream investment. This would cost a maximum of £3m a year[6].

We laid out in our response clear consumer benefits from not making any changes to MPF prices in 09/10 to address the (claimed) imbalance between MPF costs and prices (see TTG response §8 and §9).

In summary not rebalancing will deliver substantial benefits which together are worth over £100m to consumers – for example:

- encouraging NGNs which are inherently more efficient and also reducing the costs resulting from dual running of NGNs and legacy networks
- increased incentive for cost minimisation
- more voice service and price innovation
- lower prices from increased competitive intensity
- Ramsey pricing benefits (which alone is £3-5m greater than the distortional effect on downstream investment[7])

Furthermore increasing MPF prices (in order to rebalance) will simply allow BT to increase its already excess profits by £10s millions.

Ofcom could eliminate any static inefficiency resulting from distorting downstream investment by postponing rebalancing 2 years but indicating today what the final prices would be. By this signalling there would therefore be no distortionary impact, and no benefit from rebalancing in the next 2 years.

Therefore, it is wholly clear that there is no cogent or logical reason or consumer benefit for any MPF price increase.

It is also important for Ofcom to consider carefully BT's incentives – as long as BT is recovering its overall costs, and prices of individual products cover incremental costs, it is very unclear why BT would have a reason to support rebalancing, other than if this was likely to reduce the competitive pressures it faced from CPs using MPF. Ergo, BT's behaviour suggests that not rebalancing is in fact pro-competitive. This further supports our position that there are additional and significant dynamic benefits from maintaining current relative prices, that Ofcom need to be taken into account.

[5] More generally, the massive reduction in the number of MPF lines (due to 21CN not consuming MPF) will also dramatically reduce any need to adjust prices at all. A major shift to MPF from WLR was one of the primary reasons for the need to adjust prices

[6] actually this distortion (if it were true) could be eliminated if Ofcom clearly signalled its intent without making a price change

[7] Based on revised Frontier analysis which assumes that the 'distorted' low MPF price is passed through to retail thereby resulting in no inefficient investment

INFLATION

We are pleased to see that Openreach has adjusted its inflation forecast downward from 3% to 2%. We have a number of comments on this though

- Firstly 2% is, we believe, still too high given the recent trends, with RPI down to 0.0% in year to Feb 2009. BT itself has flagged the possibility of negative inflation. CPI medium term is forecast at ~1%
- It is unclear why a reduction in inflation only impacts some 60% of operating costs (BT §300a). Ofcom has suggested that some costs such as cost of sales, some IS costs, other operating income, wayleaves and SLG payments. We would like to understand why not. In the real world few costs can move independently of inflation
- BT claim that if RPI turns negative then they cannot reduce costs in line with the negative inflation level. Whilst this may be true for some costs it is certainly not true for all costs. An efficient and properly managed business should be able to reduce costs as RPI turns negative
- We do not understand why BT have not included the reduced inflation impact in a reduced WACC

One point to note is the recent divergence between the RPI and CPI due to housing costs in the RPI. While a real cost of capital and the price control itself are calculated with reference to the RPI, this is to an extent a legacy of the time before the introduction of the CPI. Arguably many of BT's input costs are not affected by fluctuations in mortgage interest payments and for these costs the CPI may be a more appropriate measure of general inflation. However care would then need to be taken to ensure consistency between the WACC, inflation assumptions and the price control itself.

On energy costs quite illogically BT seem to be sticking to their £15m increase in 09/10 (and onwards) on the basis that it agreed to forward-looking contracts. To use this as the basis for calculating costs after 09/10 is absurd. Would BT agree the same forward contract prices in 2009 as it agreed in 2008 even though the outlook for prices in 2009 is clearly lower than in 2008? Separately, we would question whether the £15m increase is reasonable. Has Openreach actually committed to this, or is it just what it thought it might do? If they did actually commit to it is it efficient?

WACC

BT's estimates (as do Ofcom's) have the absurd assumption that the WACC for the quasi-monopoly copper access business is just 1% less that the rest of BT which includes competitive and high risk businesses (BT §77). There is clearly no basis to use WACCs that are based on this assumption.

BT have suggested a high WACC for Openreach is necessary given analysts view of increased WACC over the last few years. It is not clear to what extent the analyst's estimates of level of risk attached to Openreach reflects the risks of the current business and how much is a reflection of the high perceived risk of NGA investment. However, it is clear that NGA will have driven much of the increase in WACC and thus their views are of limited relevance to considering the right WACC for copper based services.

BT have not updated their range for the level of WACC despite the significant reductions in central forecasts of inflation. One would expect the real cost of capital to remain reasonably constant and so as inflation falls the WACC would fall. BT's assumption that WACC stays the same implicitly leads to a significantly higher real cost of capital, but BT have not provided any quantitative evidence to support this increase in the real cost of capital.

BT seem to be suggesting that WACC is set high given the unstable financial environment and also need to err on side of caution (as per CC approach to airports). However, they have provided no analysis to support this. Furthermore, BT's purported application of the CC methodology for airports to Openreach is flawed in a number of respects.

- The CC "methodology" was not (as BT have misleadingly suggested) the result of a full analysis of the economic welfare results of setting the cost of capital around a "true" value. Thus the contention that the risks relating to mis-estimation of the level of WACC are asymmetric have not been demonstrated even for airports
- It is inappropriate to apply this ad hoc adjustment estimated for airports to an established telecommunications access network, where future investment relates largely to replacement and maintenance of existing capacity
- BT have selectively made upward adjustments by using this method but not the downward adjustments that are also appropriate if this method is to be properly used. BT have not taken into account the CC's much lower ranges for certain parameters such as the ERP and debt premium. Given the key output is the point estimate of WACC used, the CC's approach could be characterised as choosing the upper end of a low range, compared to Ofcom's approach of taking the mid point of a more average range, while BT are arguing for the adoption of the upper end of a high range.

The use of this CC method in this case is therefore flawed and should be totally disregarded.

PENSION DEFICIT CONTRIBUTION

Even though BT have commissioned an economics firm (Davison Yarrow), they have failed to present with any cogent reasoning for changing Ofcom proposal to exclude the pension deficit contribution from allowable costs aside of that it is included in cases of some other utilities.

Given the primary consideration in assessing relevant costs must be whether they are efficiently incurred and forward looking, Ofcom must stick to its approach of excluding pension deficit contributions.

In addition, we have though a couple of comments on Davison Yarrow's analysis

- They seemed to have ignored the recent changes for the Royal Mail where the pension will be separated from the operating business
- They suggest that it may be more efficient for consumers to bear the risk. We think this not sensible since consumers will have no way of understanding, controlling or diversifying the risk
- They suggest that BT had no choice but to run the defined benefits pension scheme given that having such a scheme was standard practice in public owned entities. Whilst this point may have been valid in the 1980s using this as an excuse for running an inefficient scheme over 25 years after privatisation is rather tenuous at best

We note the suggestion to have a more detailed assessment on these issues. We would welcome this. Indeed the whole costs analysis need a far fuller and proper assessment.

CCA FAC ALLOCATIONS

Openreach's response has unfortunately not done anything to provide any more confidence that the CCA FAC allocations are reasonable. They are arbitrary, subjective and the results clearly load excessive costs onto MPF.

BT repeat their assertion that the line card allocation should be based on number of services using the card. As we have pointed out in our submission (Appendix B2) we disagree and believe that the full line card costs should be included in the WLR costs else the cost of WLR (when provided alone) will not reflect the underlying cost of provision.

COSTS ALLOCATED TO NON-REGULATED SERVICES

It was refreshing to see BT accept that there has been a massive under-allocation of costs to some non-regulated services. What this shows is, yet again, BT has provided a set of projections to Ofcom that are materially inaccurate (in BT's favour). Ofcom needs to understand how such as material error in Openreach's costs has arisen. Was it deliberate? Did it happen out of negligence or an oversight? How can such errors be systematically prevented in the future?

On the specific assumptions used we have a number of comments

- We note from BT's response (Fig 20 and 21) that there is another £39m of non-regulated services costs that Ofcom has not addressed in its analysis (SFI in Fig 20). We expect Ofcom to properly include this in its analysis.
- BT have accepted themselves that 100% of the cost that should be allocated to Enhanced Care and Redcare should be allocated from CRS services. This assumption may well need to apply to SFI, TRC and 'other'.

- From Fig 20 it is unclear how they calculated the figure of £81m. Also BT implies that there should be zero cost allocated to these services from CRS. Why not?
- What is 'own use'? It seems a rather 'unequivalent' type of activity since Openreach is required to provide the same services to all CPs. Do they have an exemption for this?

These are very material amounts. Ofcom need to publish clear proposals on the treatment and assumptions used to calculate the cost allocation adjustment and consult on these.

EFFICIENCY GAINS

It is worth noting clearly that BT now recognise that their likely actual efficiency gain in 09/10 is four times what they projected just 6 months ago (2.4% versus 0.6% previously). This is not the first time BT have massively underestimated their efficiency gains – as we pointed out in our response (TTG §3.2) BT consistently claim to be able to only achieve around 1% efficiency gains but go on to achieve 4% or 5%. Clearly Ofcom cannot rely on BT's claims about efficiency gains. This recent revelation provides yet more reason to almost wholly disregard BT's estimates.

E&Y on behalf of BT have provided a review on the KPMG analysis. Though the report by E&Y says that doing a benchmarking exercise is difficult and there are potential weaknesses in the approach KPMG took, they offer little argument to suggest that KPMG have over-estimated the potential gains[8].

However, as we highlighted in our response there are many sound and evidence-based reasons why KPMG have under-estimated the efficiency gains (TTG §3) such as omitting efficiency gains from fewer tasks, reduced task times and less overhead resulting from de-layering and by over-estimating benchmark costs on corporate overhead and. Indeed BT also recognise the narrow (i.e. partial) scope of the analysis (BT §97).

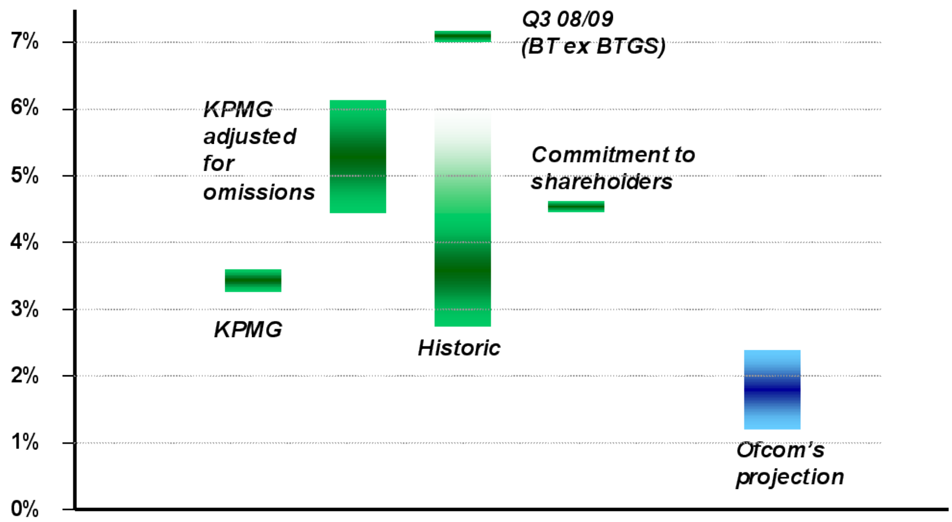
We note that BT keep on reiterating this concept of that some of the costs are not compressible (and therefore less susceptible to efficiency gain). We accept that there are likely to be different potential efficiency gains on different costs/activities. Obviously the simple way of adjusting for this is to take an average over all costs and apply use this basis consistently across all benchmarks. When you do this, as we have done (and shown below), it is clear that Ofcom's assumptions for efficiency gains are ludicrously low. We have included on this the result from their Q3 results presentation they said they achieved a 7% cost reduction through efficiency savings[9].

---

[8] We find it frankly ludicrous that BT can suggest that on the basis of the weaknesses of the KPMG methodology that Ofcom should revert to the Openreach assumption of 0.6% efficiency improvement (BT §104) (in 2012/13) when their assumption lacks any justification whatsoever.

[9] Q3 2008/09 results. Slide 25, BT Group – figure excludes BTGS. Saving of £141m on cost base of £2,005m

Comparison of efficiency projections (% annual improvement on all costs)



KPMG's estimate of the potential productivity improvements that Openreach could achieve, have been informed by the use of the historic growth of economy wide labour productivity. E&Y suggest that total factor productivity growth would be a better basis for identifying the movement in the efficiency frontier. There is no reason to presume that total factor productivity growth may be a more accurate indicator of what Openreach would be able to achieve in the future. BT's/E&Y's criticism seems therefore to be misplaced, unless if it can provide more robust evidence as to why economy wide total factor productivity growth is a more accurate predictor of Openreach's future productivity growth potential.

BT/E&Y seem to be suggesting that the figure of 1.5% that Ofcom used in setting NCC and WLR charges previously should be used as the basis for setting the movement in the efficiency frontier. It would be clearly wrong to do this. This was an estimate and not based on actual performance – actual outturn was found to be 4% to 5%.

BT make a number of points in relation to staff levels and efficiency that are worth addressing:

- They whinge about the impact of lower numbers of staff given need to maintain skills, quality and responsiveness (BT §114). They seemed to have misunderstood what efficiency gains are – they are simply delivering the same output with less cost due to, for instance, less effort, lower salary staff or fewer staff. By being efficient they will be able to deliver the same output with less cost
- BT highlight their inability to reduce staff levels due to low natural attrition (BT §115). Of course the real reason that low natural attrition is a constraint is that BT operate a 'no compulsory redundancy' policy. Clearly if this policy gets in the way of reducing staff to an efficient level it is, *per se*, an inefficient policy and therefore should be disregarded in assessing BT's ability to reduce costs.
- BT say there will be costs associated with redundancies (BT §115) which mean that staff level reductions only pay back beyond year 2. To the degree to which

these redundancy costs are allowable the costs should clearly be amortised over several years.

FAULT RATES

BT are suggesting that there are new factors that will increase the fault rate such as degradation of the network, increasing cable fill, new 6dB rule and SIN5XX requirements (BT §128). Whilst these might be relevant if these are to be included they need to be properly understood and the impact properly quantified and assessed in particular to ensure that they only take account of future changes. We would also note that their increasing cable fill claim seems to run counter to their projection for reducing number of lines !

Notwithstanding these issues we still believe that the primary consideration here should be that BT should aim to meet best practice internationally which appears to be around 0.06 faults per line per year which is about half of the current Openreach fault rate. We note that BT have made no counter proposal on the right target level or why this benchmarking approach should not be used.

On the CAPEX required to deliver these fault rate improvements we see two issues with BT's claims (the same applies to CAPEX required to deliver efficiency gains)

- Firstly, there is ample CAPEX in the budget to enable these levels of fault improvements to be achieved
- Secondly, they seem to suggest that they require a 1 to 2 year payback on investment to justify the investment and/or they will accrue and recover the capital cost over 1 to 2 years (BT §131). Clearly this is absurd. Any CAPEX should be properly capitalised and an appropriate allowance made for depreciation, holding gains and return on capital employed

IMPACT OF INCREASED MPF PRICES IS <u>NOT</u> SMALL

Openreach have boldly claimed that

> *"Increased MPF charge ceilings do not change the economics of existing MPF investment"* [BT §149]
>
> *"[it] will not have a material adverse impact on profits"* [BT §155]

They are simply wrong. The proposed MPF increases will reduce the IRR on an investment by up to 10 to 20 percentage points[10]. Or don't Openreach think a 10 to 20 percentage point reduction in return is material?! BT are claiming that there will be a 'hold-up' if their return is reduced by one or two percentage points. Clearly the 'hold-up' that LLU operators face is far far greater.

---

[10] On typical exchange, assuming price increase is absorbed. Based on Ofcom high case. The ability to pass through will be reduced given BT is staying on WLR which is proposed to fall relative to MPF. We can provide Ofcom with this model

BT also claim that Ethernet price reductions will materially reduce the impact of copper price rises [BT §160]. Again simply wrong. For TalkTalk the impact of the reductions will be less than between one to three percentage point improvement in IRR (versus the 10 to 20 percentage point reduction due to MPF price rises).

We are concerned that Ofcom also share this same view that the price changes will not be materially adverse on competition and consumers. For instance, Ofcom said in its consultation that:

> *"Given that we signalled our intention to review these charges at the time they were first set, CPs arguably would have anticipated that changes to the current structure of nominal charges would take place"* [condoc 6.77]
>
> *"The impact on LLU operators may also be mitigated by BT's recent proposed reductions in BES prices"* [condoc 6.78]
>
> *"We do not consider that any of the charge control options we are considering are likely to lead to a significant increase in consumers' total bills … the extent of [increases] will depend on … the extent to which CPs are able to absorb any increase in wholesale costs"* [condoc 6.79]

These assertions are wrong

- [[Redacted]]
- As we have described above the offsetting effect of Ethernet price reductions is relatively very small
- The MPF price increase will have something between a 10 to 20 percentage point reduction in IRR and a £30 increase in consumer bills. Does Ofcom not consider these significant ?

CONTROLS ON ANCILLARY SERVICES

BT seem to be suggesting that Ofcom's proposals for three baskets for each of WLR, SMPF and MPF ancillary services (which had specific caps on specific services and sub-caps on all services) should be replaced by one basket with no specific caps or sub caps. This is plainly absurd.

As we articulated in our response (TTG §11.3) Ofcom's proposals were clearly inadequate in protecting against Openreach abusing the flexibility to reduce prices for products used internally, gaming the rule to increase returns by reducing prices on declining products and favouring downstream products. BT has exploited these loopholes in the past to the clear detriment of consumers and without a far stronger regime than the one proposed by Ofcom they will carry on in the future. Given BT's recent decision not to use MPF for 21CN the risk of Openreach abusing this flexibility is even higher since there is an even stronger incentive to favour WLR and SMPF to the detriment of MPF.

Openreach have suggested that price concerns could be addressed through disputes

> *"Any price adjustments would of course be subject to Ofcom's scrutiny through the normal dispute resolution and complaint processes in the event that Ofcom*

or any CP was to have concerns about the prices set not being cost oriented" [BT §401]

What a stupid idea – they are suggesting putting in place a lax control and then solving issues through disputes. The idea of a price control is just that – putting in an *ex ante* system that provides enough confidence and clarity to ensure prices are reasonable and so negate the need for disputes. As we highlighted in our response (TTG §11) Ofcom must strengthen its current proposal to ensure that the baskets can't be gamed by BT to their advantage and the detriment of consumers.

TIMING OF INTRODUCTION OF PRICE CHANGES

BT have suggested that

- There should be no advance notification of price changes (as against the one week proposed by Ofcom) (BT §438)
- In the case that (as is likely) the statement is late, price changes should apply from 1 April 2009 (in affect a negative notification period!) (BT §439)

This is an unjustified attempt to increase BT's profits. These proposals are unfounded and totally against consumers interests. We explain below.

On the question of a one week notification period, we explained in our submission (TTG §10.1) that at least a 90 day notification period is required from the announcement of the prices. This is necessary to allow competitors and customers to adjust their prices. Indeed Ofcom has used this as its prime consideration when it has previously set notification periods and only departs from this when there are exceptional circumstances whereby a shorter period would be beneficial to consumers. In this case there is no justification to have anything less than a 90 day notification period – unless Ofcom believe that allowing Openreach to further increase its excess profits is justification.

On backdating to 1 April 2009 we explained in our submission (TTG §10.2) that this would in effect rob Openreach's customers to further feather their profits. The key points were

- The 1 April 2009 implementation target is a wholly arbitrary date with no clear logic underlying why it is an appropriate start point. Indeed all the evidence suggest there is no need to adjust charges at all for at least 2 years
- If there was backdating the charge would in effect no longer be forward-looking (which is the key underlying tenet for all this price setting work) since the price would effectively include a cost from the previous period
- We fail to see what would be the (static or dynamic) economic benefit from this – it would simply be a unwarranted transfer
- It would be wholly inconsistent with Ofcom's approach to charge controls where Ofcom has never backdated price reductions (even though in many cases there may have been an argument to backdate to remove excess returns). In the case of leased lines there is also a case for backdating since BT caused the delay – yet Ofcom is not proposing any backdating

BT have suggested two reasons for introducing the changes so quickly – neither of these reasons is in any way true or valid

- *to enable Openreach to fully recover its legitimately incurred costs* (BT §441a). They do more than recover their costs and will make in 09/10 (according to Ofcom's numbers) profits way in excess of their cost of capital
- *to address the downstream market distortions …* (BT §441b). There is no way that (once a price change is announced) backdating that price change would make any change to downstream market behaviour

LINK TO NGA INVESTMENT

We are disappointed that BT have again sought to suggest that unless it gets a high/excessive price for LLU/WLR services it will not invest in NGA. For instance

> *"Openreach requests that Ofcom takes this opportunity to ensure the sustainable supply of Openreach's regulated services in order to enable the ongoing investment in the access capability – both this generation <u>and next generation</u>, which are inextricably linked"* [emphasis added] (BT §4)
>
> *"Any proposed investment in new and wide-scale access technology such as Next Generation Access ("NGA") represents a very significant business risk. In the event that Ofcom's new framework were to fail to provide the correct signals and incentives, any such investment may bear an unacceptable commercial risk in the short-term"* (BT §36)

This 'pressuring' of Ofcom to increase LLU and WLR prices is both morally and economically wrong. Higher LLU/WLR prices will actually discourage NGA investment since BT is likely to continue to invest in its legacy network for longer if allowed to make excessive returns. Excessive prices would also penalise all LLU and WLR customers by imposing a tax on them to fund BT's own fibre investments. Ofcom must make a very clear statement that the costs and prices for LLU/WLR will not be inflated in any way as a result of BT's NGA investment.

TRANSPARENCY ISSUES

We were interested to note that Openreach has called in many areas for greater transparency on Ofcom's assumptions and reasoning. We concur. We do however find it rather hypocritical for BT to be asking for this transparency when BT have been absolutely intransigent in allowing anyone else transparency of their numbers.

The E&Y work also highlighted the innate unfairness of the lack of transparency. In doing its assessment of the KPMG work it had access to the confidential version. Why did we not? It is inherently asymmetric and unreasonable