

Valuing copper access

**Cable & Wireless response to Ofcom
consultation**

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CABLE & WIRELESS

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Executive summary

The cost of BT's copper access network is a major component in the charges for wholesale access services (e.g. local loop unbundling, wholesale line rental) provided by BT to other networks and service providers which compete with BT in downstream markets. Currently these charges are too high. Cable & Wireless expects that Ofcom's review of the valuation of BT's copper access network will result in reductions to these wholesale charges to enable us and others to compete more effectively with BT. Ofcom's consultation on valuing copper access is therefore important to the future competitiveness of UK communications industries and the benefits to end-users and the broader economy which will flow from that.

Key points in our response are:

- Ofcom is right to shift regulatory objectives in access charge setting away from creating incentives for competitive access infrastructure investment and towards customer protection. This reflects the reality that the access network is an enduring economic bottleneck.
- Wholesale charges for some regulated access services in the UK remain high both when measured against likely efficient levels of cost, and benchmarked against comparable charges in overseas jurisdictions. For example, the rental charge for a fully unbundled loop in the UK is 58% higher, and the connection charge 41% higher than in Italy (this is despite recent deep reductions in UK connection charges). These differentials are constraining the efficient development of key services in the UK, notably broadband. To ensure that the UK does not lag behind its international competitors in the development of important ICT capabilities, Ofcom should undertake a benchmark study of best practice from overseas markets as part of its review of the valuation of BT's copper access network. Where more efficient cost levels or better allocation methods are revealed, these should be factored into the review.
- Cable & Wireless is surprised that Ofcom has rejected the option of historic cost accounting (HCA) so decisively at this stage. We believe that Ofcom should keep its options open until it can assess more accurately the impact of the various methodological options.
- If, as is its preference at this stage, Ofcom opts to continue with a current cost accounting (CCA) approach it should ensure that only efficient costs are included.
- The current methodology employed by BT to create an asset inventory for its access network (known as the local loop costing study – LLCS) is based on a very limited sampling exercise and may therefore be prone to material inaccuracy. BT has stated that the level of inaccuracy is +/-8%. An 8% error margin is significant and can result in material over or under

recovery of cost by BT. Cable & Wireless believes that BT's methodology is more likely to result in over than under estimation of costs, and consequently there is a real risk of over-charging by BT for copper based services. The use of BT's new electronic asset inventory (PIPeR) should improve accuracy, but Ofcom and industry must be satisfied that it is fit for purpose before it can be used for regulatory costing.

- Ofcom should also ensure that BT is unable to anti-competitively cross-subsidise between its monopoly access network and the more competitive core network. In particular, Ofcom should ensure that the costs of shared duct are allocated in a way which will not harm competition in core networks or overload costs in the access network. To achieve this, Ofcom should allocate duct costs to the access network only insofar as they are purely incremental to access and not used by the core network.
- Cable & Wireless believes that there is no justification for allowing any holding losses which may result from this exercise to be included in BT's wholesale access charges.

Introduction

The outcome of Ofcom's consultation on the regulatory valuation of BT's copper access network will be important in shaping the competitive landscape in UK communications industries.

Ofcom has acknowledged that BT's existing access network is an enduring economic bottleneck¹. This means that other networks and service providers which compete with BT in downstream markets are reliant on BT for connection to customers across BT's access network (or 'local loop'). This situation has given BT natural incentives to restrict the timing and manner of its competitors' use of the local loop and to favour its own downstream operations. The result of this has been to constrain competitive development in UK telecoms markets. Ofcom is currently addressing these fundamental issues in its Strategic Review of Telecommunications.

Valuation of the copper access network is an important part of this review. The costs of the copper access network are a major component in the charges which BT levies on other operators for wholesale access services such as local loop unbundling (LLU) and wholesale line rental (WLR). Unless the charges for these services are genuinely cost oriented, BT's downstream competitors will not be able to compete on a level playing field with BT's own downstream businesses.

This consultation is for the most part about the detailed methodology of valuation, and Cable & Wireless addresses Ofcom's questions on methodology in the main body of this response. In this Introduction we wish to draw attention to some important general points:

1. BT's charges for important access based services remain high, and big reductions are needed to facilitate fair and efficient competition. For example, the UK remains one of the highest cost EU jurisdictions for LLU operators - monthly rental for a fully unbundled local loop in the UK is €13.3, compared with €8.3 in Italy, €8.6 in Denmark, €10.5 in France, and €9.6 in the Netherlands². As long as these differentials remain, the UK will not be able to claim a leading position in the development of a truly competitive market for broadband services. This review is an important opportunity for Ofcom to rectify this.
2. On 3 February, BT announced its intention to make some reductions to fully unbundled loop rental charges but stated that this was conditional on the outcome of the strategic review generally, and more specifically the current consultations on the cost of copper (addressed in this response) and the cost of capital. Cable & Wireless welcomes any reduction of these

¹ In its Strategic Review of Telecommunications Phase 2 consultation document, Ofcom stated that "Much of the copper access network is not contestable by competing network providers, and as a result there is a strong need for direct consumer protection".

² Commission of the European Communities: European Electronic Communications Regulation and Markets 2004 (COM (2004) 759).

charges, but we are concerned and frustrated that BT is seeking to attach conditions to the 'offer'. This is unacceptable. Any changes resulting from the cost of copper and cost of capital exercises must be treated separately to any changes which BT already has planned. Cable & Wireless notes that a reduction of the magnitude suggested by BT on 3 February (8%) is wholly inadequate to address the fundamental valuation and risk issues being addressed by Ofcom in the cost of copper and cost of capital projects (in fact it would only compensate for the margin of error in valuation which BT has identified in LLCS).

3. It is important to understand that regulatory costing and pricing decisions are now being taken in the context of very different regulatory objectives to those which prevailed when the valuation of BT's access network was last addressed. Ofcom's predecessor, Oftel, established the current cost accounting (CCA) standard which is now in use for access in 1997. At that time, the cable networks were expanding their coverage, and the regulator envisaged effective competition between alternative access infrastructures. The costing methodology for the access network was set with an objective of providing incentives for alternative access infrastructure build. Now that Ofcom has acknowledged that significant competitive investment in access infrastructure is unlikely in the foreseeable future, its policy objectives have shifted from provision of incentives for investment in competing infrastructure towards ensuring that customers are protected from excessive pricing in a monopoly market. The change in objectives means that there is no longer a need for Ofcom to facilitate generous margins to reward risky new investments,³ and instead the focus should be on ensuring that BT can recover the costs of its access infrastructure in a way which both provides a reasonable return on its investment, and protects wholesale and retail customers from excessive charges for monopoly services. With this in mind, Cable & Wireless expects the current review to result in a significantly lower underlying cost base and hence significant reductions in charges for wholesale access services.
4. The timing of changes to wholesale charges and retail prices resulting from a change in the valuation of BT's access network is important. Ofcom must implement price/charge changes in a coordinated way to ensure that these do not give rise to unintended negative consequences. For example, it will be essential that any changes in retail prices (e.g. retail line rental) do not take place before changes to upstream wholesale charges (e.g. wholesale line rental) or there will be a danger of margin squeeze. Cable & Wireless agrees with Ofcom that priority should be

³ In a separate consultation, Ofcom is addressing the question of whether the current cost of capital applied to BT's regulated prices appropriately reflects the risks involved in its businesses (see 'Ofcom's Approach to Risk in the Assessment of the Cost of Capital'). In the context of reviewing the valuation of BT's copper access network, it is relevant to note that the risk to BT of under-recovery of the costs of its existing access network is lower than the risk in some of its other businesses. This is inherent in the identification of access as an enduring economic bottleneck. Cable & Wireless expects Ofcom's review of the cost of capital to result in the setting of a lower cost of capital for BT's access activities than for other lines of business.

given to changes in LLU charges since these are the furthest upstream that other networks and service providers are able to directly access BT's facilities.

The remainder of this response addresses the specific questions in the consultative document.

Responses to Ofcom's questions

Question 1: Should this consultation be extended to cover the copper access network operated in the Hull area by Kingston Communications? If you think it should then please explain why.

Cable & Wireless does not believe that Ofcom currently needs to extend the review to cover Kingston's network.

Question 2: What is your opinion of a return to HCA?

Cable & Wireless believes that, in principle, there is some merit in returning to HCA. However, Ofcom would need to consider how this would affect both costs and charges before committing to such a step.

Advantages of HCA

HCA would ensure that the access network was valued on the basis of BT's actual investments. There would be some advantages in this. In methodological terms, it would remove some of the headaches involved in adjusting asset prices to reflect their current cost rather than incurred cost.

HCA would also remove the need to trade-off between objectives for customer protection and investment incentives. CCA is a more appropriate methodology to create entry signals because it establishes costs based on the replacement value of assets (and therefore closer to the costs which would be faced by a new entrant). However, this can result in asset values being higher than they would be under HCA at any given stage in the economic life of an asset. Also, where the costs of entry are higher than replacement costs, regulators face a difficult decision on whether to allow charges to rise to facilitate competitive entry. In either or both of these circumstances, a CCA based approach is likely to result in a higher level of charges than HCA at any given point in time (including the possibility that charges will rise above their CCA level in the case where there is a policy to create generous investment incentives). This can create tensions for a regulator with customer protection objectives.

In addition, some of the reasons why HCA was rejected in the last review of access valuation by Oftel in 1997 are no longer valid. In particular, and as explained in the Introduction to this response, Ofcom's objectives have changed as a result of the conclusion that the access network is an enduring economic bottleneck. In particular, Ofcom should no longer be so concerned to ensure that BT's access valuation and wholesale access charges are set at a level to provide incentives for new investment (though it has stated that it does not want to set charges at a level which would completely rule out future competitive investment). In 1997, the CCA methodology was established

taking account of the fact that new investment in access infrastructure was riskier and more costly than BT's existing access investment for a number of reasons, including:

- Much of BT's access network was built prior to privatisation and liberalisation. Commercial risk was not really a factor in decision making in this period since investments were assessed more on their merits in developing a national asset than against the need for returns sufficient to reward risk in a commercial enterprise. Also, it was accepted that the costs of access would be cross-subsidised by more profitable call revenues.
- A proportion of the assets in BT's access network were fully depreciated (i.e. they had been paid for) before new entrants commenced meaningful investments in access infrastructure in the 1990s.
- Some of the most significant drivers of cost in access infrastructure build (e.g. labour rates) had inflated significantly compared to the rates incurred by BT and its predecessor in the development of the access network which were reflected in its HCA valuation prior to 1997.

To ensure that investment decisions were not skewed by these (and other) characteristics of HCA, Ofcom decided that the access network should be re-valued at CCA to reflect the costs of a new entrant.

Now that Ofcom has concluded that access is an enduring economic bottleneck, incentives for new investment should have a much less heavy weight in its decision making. Therefore, a major reason for rejecting HCA in 1997 (and moving away from it) has been removed.

Disadvantages of HCA

As noted above, use of HCA may remove some concerns about inappropriately high asset values since BT can only recover the costs which it actually incurs (i.e. based on actual investment). However, this could still result in customers having to face inefficient levels of charges as HCA makes no distinction between BT's incurred costs and efficient costs.

For example, it is likely that BT's access network contains some capacity which is not used and is unlikely ever to be useful (essentially stranded assets). Without an audit of all BT's past investment decisions (which is likely to be impossible) the overall access valuation cannot be abated for the value of these investments, and so customers end up paying for them. In contrast, CCA valuations include the possibility of methodological adjustments to ensure that only an efficient level of cost is recovered.

Conclusion on HCA

Cable & Wireless believes that Ofcom must take a pragmatic approach to its decision on whether or not to return to a HCA based valuation. Given that customer protection (i.e. protecting customers from excessive pricing in a monopoly market) is a key objective for Ofcom in this exercise, it is reasonable to judge that HCA will only be an appropriate solution if it delivers greater customer protection benefits than CCA. Such benefits would be evident if HCA delivers reductions in the charges paid for access services compared to CCA. If it does not, then it can be concluded that the HCA valuation includes a proportion of inefficiently incurred costs, and Ofcom should focus on achieving an efficient outcome through CCA.

Question 3: Do you believe that the overall regulatory approach described in this section is complete and appropriate? If not then please explain how the proposed approach should be changed.

Overall Cable & Wireless considers Ofcom's approach to be reasonable. We comment on the options for network optimisation and other methodological points below in direct response to some of Ofcom's questions. We are surprised that Ofcom has rejected HCA so decisively at this stage and believe that this option should be kept open and assessed in the light of an analysis of the customer benefit it would actually deliver (as discussed in our response to question 2 above).

Question 4: What do you believe the useful economic life, i.e. book life, and the actual life, i.e. actual usable life before replacement is required, of a copper access cable should be?

In the local loop costing study currently used by BT to derive the CCA valuation of its network, copper cable is assumed to have a service life equal to its economic life of 15 years. Cable & Wireless believes that 15 years is a reasonable economic life for copper cable (though we know that the cost of copper in some networks is recovered over 20 years). However, the actual useful life of copper can be significantly longer than this with the result that a proportion of the copper in BT's network is fully depreciated and should not be included in the cost base. Cable & Wireless therefore suggests that Ofcom obtains expert independent information on (1) the age of the copper in BT's network, and (2) best practice on the age at which copper should optimally be replaced. As a point of principle BT's wholesale customers should not be paying for change out of copper earlier than is efficient.

Question 5: Do you believe that a rolling treatment of the economic life of duct is appropriate? If not, how do you believe duct should be treated?

Mathematically the rolling method of calculating depreciation charges should not result in any difference to the overall level of recovery of costs compared with recovery of those costs over a fixed period (at least in the long run). However, the rolling method has practical difficulties since it complicates the re-calculation of depreciation values each year. In addition, it means (since duct typically has very long in-service life) that the cost of some duct is recovered over very long periods. Cable & Wireless believes it would be simpler to set a fixed economic life for duct. However, we also believe that 25 years is a short economic life for duct. Normal practice for recovery of the cost of duct is to give it an economic life between 30 and 40 years. The economic life of BT's duct should be re-set in line with this.

Question 6: What level of spare capacity do you believe is appropriate for a copper access network?

The copper access network should be valued only on the basis of an efficient level of deployment of spare capacity. This may seem an obvious point, but it is worth emphasising since the genuine need for network resilience and scalability should not be confused with the existence of stranded assets or inefficient levels of spare capacity.

Engineering an efficient level of spare capacity is a complex task and will require different levels of spare in different points in the network. Cable & Wireless has provided some confidential data to Ofcom based on our own practice, but we have no way of knowing whether this data could be used to derive an efficient level of spare capacity in the specific circumstances of BT's UK network.

Cable & Wireless suggests that the study commissioned by Ofcom for this project from WIK Consult could be useful in identifying the optimum level of spare capacity. Ofcom may also find it useful to benchmark BT's network against best practice planning rules in comparable overseas incumbent networks.

Question 7: What is your opinion on the option of keeping the current methodology and then moving to a valuation based on PIPeR when it becomes possible (expected in 2006/7)?

BT has stated that its local loop costing study (LLCS) conducted with the current sample size (176 exchanges from which 40 are examined each year) is accurate within a statistical error range of +/-8%.

An 8% error either way would have a material impact on costs and charges and is in itself a reason to create a more accurate system. Furthermore,

Cable & Wireless believes that there is a significantly greater danger of access costs being over-stated through LLCS than there is of under-statement. This is because we understand that LLCS samples which result in downward valuations are discarded and therefore some outcomes in the possible range of under-valuation errors can be ruled out.

Because LLCS carries this inherent risk of inaccuracy, it should be replaced with a more accurate asset inventory as soon as possible

Clearly, the PIPeR asset database has the potential to generate an appropriate asset inventory for access valuation. However, we do not believe that PIPeR data should be accepted as the basis for valuation unless Ofcom is satisfied that it is fit for this purpose in practice, as well as just conceptually. This would increase industry confidence in the system. We believe it would be helpful for BT to share some details of PIPeR with industry so that we can take a view on the suitability of the system for regulatory asset valuation. Perhaps Ofcom could facilitate a presentation or workshop for this purpose.

A move towards a better inventory would improve accuracy, but CCA valuations may still be inappropriate if they do not reflect the costs of an efficient operator. Use of an optimised cost model of the type which may be derived from the WIK Consult analysis would reduce the level of inefficient costs since it would estimate optimally efficient connectivity between each NTE and its serving MDF. However, there could still be problems resulting from inaccuracies in the NTE inventory and in the aggregation of results from a limited sample of exchanges. As also discussed in our response to question 8 below, Cable & Wireless therefore suggests that Ofcom gathers optimal cost data from a variety of sources, including appropriate benchmark data from other networks on which wholesale access charges are lower than BT's, in order to provide options in its approach to optimisation.

Question 8: What is your opinion of using an optimised approach to estimate the value of BT's copper access network?

In this response, we have already discussed some of the merits of basing a CCA access valuation on the costs of an optimised network. Optimisation would mean that only the costs of an efficient network are recovered, and therefore users would not have to pay for inefficient decisions.

Optimisation has benefits for entry efficiency too. Whilst Ofcom has explained that new investment signals are not its primary objective in this exercise, it has also stressed that it does not want to set charges at a level which would foreclose any competitive entry. Establishing a valuation based on optimisation of BT's network would have the benefit of creating very efficient entry signals. To the extent that there is any competitive entry in the coming years, only efficient entry would be feasible.

Under a CCA approach, Cable & Wireless supports network optimisation as a basis for costing as this will deliver both a better value solution to customers, and create more efficient signals for competitive network investment.

We recommend that Ofcom continues to develop its work on optimisation using the WIK Consult network optimisation model and that this, in combination with relevant data from other markets and networks is used to create a network optimisation methodology for valuation of BT's access network.

Question 9: Do you believe it would be possible to discount the new technology solution for additional functionality and, if so, how?

Cable & Wireless agrees with Ofcom that it is inappropriate to discount the costs of new technology assumed for the access valuation to reflect additional functionality. The valuation should be based on the technical capabilities of BT's existing network without added economies of scope which would be provided by added functionality if optimisation involves the use for costing purposes of different assets or architectures.

Question 10: What alternative architectures to the active PCP architecture studied by Ofcom do you believe would be viable options for a modern equivalent asset to BT's copper access network?

Cable & Wireless believes that a possible development in access infrastructure in the near to medium term is the deployment of fibre beyond the MDF with active electronics at the PCP (as modelled by Ofcom). However, recent amendment of the ANFP means that faster speeds can be delivered over copper from the MDF. This has changed the economics of further fibre deployment which looks less compelling as a result.

Beyond the deeper deployment of fibre, there is no other alternative access infrastructure currently viable as a modern equivalent asset of BT's network. Radio based technologies have tried and failed to compete as access platforms in the past. New radio based solutions (e.g. WIMAX) offer some potential for broadband access, but they have not reached the mass market and so cannot be regarded as credible alternatives to BT's copper network at the present time.

Question 11: What is your opinion of using an optimised approach which takes advantage of modern technology to estimate the value of BT's copper access network?

Cable & Wireless believes that Ofcom is right to consider the possibilities of 'active PCP' architecture. We will be interested to see the outcome of the work carried out by Analysys on this. However, we would not expect the

impact on costs to be great given that (1) as discussed in response to question 9, there will be no discount to the cost base to reflect additional functionality which would be facilitated by the use of new technology, and (2) we would not expect this approach yield any significant savings in major cost categories (e.g. duct).

Question 12: How do you believe the labour rate should be set?

As Ofcom explains in the consultation document, the labour rate included in the existing CCA valuation is 1994/5 labour costs indexed forward in line with general economy productivity trends. Whilst we recognise that the 1994/5 rate is likely to capture some economies of scale in a period of quite intensive network build, it would not reflect all of the economies which would arise for full national network rollout. Ofcom should investigate and, if appropriate, further adjust the labour rate for this.

Question 13: How do you believe the issue of unavailability of asset types used in the network should be accounted for in the valuation?

Cable & Wireless agrees that, under CCA, adjustments should be made to reflect differences in the availability of asset types between the time of actual build and calculation of the GRC each year.

Question 14: What is your opinion of using cross-sectional area to attribute the cost of shared duct?

Question 15: What is your opinion of using bandwidth to attribute the cost of shared duct?

Question 16: What is your opinion of using incremental cost as the basis to attribute the cost of shared duct?

Question 17: What other methods of attribution for the cost of shared duct might be appropriate?

The following response covers questions 14 – 17.

Obviously, the allocation of shared duct costs between core and access networks impacts not just the valuation of the access network, but the core network also. Whilst this consultation is solely concerned with the valuation of the access network, and participants are therefore rightly focussed on the competitive dynamics of access, we must not lose sight of the impact that any decision taken on this will have on the valuation of core networks. In

particular, Ofcom must be very mindful of the danger of hidden cross-subsidy from the enduring economic bottleneck access network to the much more competitive core network because this will put BT's competitors in core infrastructure at an unfair competitive disadvantage. Any methodology which over-estimates the allocation of duct to the access network (and therefore under-estimates duct in core) will have this effect, as well as artificially inflating access costs and charges.

Cable & Wireless believes neither the cross-sectional measurement currently employed nor the use of bandwidth to be sufficiently accurate methods to allocate duct costs. Cross-sectional areas are difficult to measure and do not offer a useful insight into the use of the cables within a duct. Furthermore the methodology is not supported by the principle of cost causation (the correlation between the level of costs and cross-sectional area is very weak) and has no economic rationale.

The use of bandwidth is also likely to create distortions. As Ofcom points out, fibre and increasingly copper can be used across a wide range of speeds and this is continually changing. Cable & Wireless suggests that any allocation of costs based on bandwidth would need to be revisited frequently, might not be stable, and would therefore create uncertainty. As with cross-sectional measurement, this methodology does not reflect cost causation (costs are not caused by relative bandwidth).

We believe that the best option is to allocate duct to access on the basis that the access network is incremental to the core network (Ofcom's Option C). There are a number of advantages to this approach.

Firstly, it would create a stable allocation which would not need to be constantly revisited (as would be the case if duct was allocated according to bandwidth).

It would also remove the possibility of competitive distortions in core networks. BT enjoys economies of scope from the vertical integration of its access and core networks, duct sharing being one of the most significant. Economies of scope, in and of themselves, are not a problem, but regulators sometimes need to intervene where a dominant company can exploit economies of scope to cross-subsidise between monopoly and competitive services. We believe that the allocation of duct between access and core networks is an example of such a situation.

Other core networks are 'stand-alone' and so cannot benefit from economies of scope between core and access. This gives BT a strong incentive to allocate duct costs into the access network (where they are easy to recover) and away from the core network (where they are less so). Competitive parity between BT and competing core networks could be created by regarding BT's core network as stand-alone for the purpose of allocating duct costs. The core network would then bear the costs of all the duct which it uses, shared or not. The access network would be incremental to this and would bear the

costs of the duct which is used only for access. This is Option C in Ofcom's consultative document.

Cable & Wireless believes that using the incremental cost approach is the best way that Ofcom can ensure that an inappropriate allocation of duct costs does not unfairly tilt the competitive playing field in core networks towards BT. Application of an equal proportionate mark-up will dilute this benefit.

Question 18: Over what timeframe do you think it is appropriate to recognise the impact in any change of valuation of the copper access network in relation to setting prices?

This question relates to charge changes which could result from the creation of a holding loss through adjustments to the CCA valuation of the access network. Cable & Wireless strongly believes that any overall change in valuation should be discounted from the cost base for charge setting. The ability of BT to recover any downward adjustment to valuation will dilute - and in the worst case negate - the very positive benefits which will flow from reductions in wholesale charges and retail prices.

Holding gains and losses are created where the value of an asset changes over time. They are therefore a common feature of CCA because the GRCs of assets are re-set each year and any change will result in a holding gain or loss which is normally balanced by a corresponding adjustment in revenue (downward or upward respectively). In its consultative document Ofcom has discussed the concept of a holding loss arising from any change to the CCA methodology resulting from the review of BT's access valuation, but this is quite different from the concept of a holding gain or loss arising from the year on year re-calculation of GRCs, and it should not be treated in the same way.

As discussed elsewhere in this response, the existing CCA methodology was established by Oftel with the expectation of investment in alternative access infrastructure and subsequent competitive entry to access markets. There was therefore also an expectation that BT's access charges (and therefore costs) would be subjected to competitive pressure and would, by now have fallen to the level of an efficient operator. In fact, this competitive pressure has not materialised and hence BT has been able to recover a level of cost significantly above that which was anticipated both by itself and the regulator when the CCA methodology was established in 1997. Ofcom is now considering methodological changes to the regulated access valuation to reflect the reality that competition in access has not emerged as expected.

Changes to the methodology will be a correction to align it with current market conditions and regulatory objectives. Any ability by BT to recover a difference in valuation between the existing and the new methodology would allow BT to continue recovering an inefficient level of cost.

To summarise, BT has clearly benefited since 1997 from being able to recover a higher level of costs than was anticipated when the CCA valuation methodology was introduced for its access network (essentially a windfall benefit to BT). Enabling it to recover the balance of any downward adjustment in valuation resulting from correction of the methodology would mean that BT benefits from a double windfall with a corresponding double penalty to customers. There must therefore be no inclusion in wholesale access charges of any holding loss or any proportion of a holding loss resulting from Ofcom's review of the valuation of BT's copper access network.

Question 19: Over what range of products and services do you believe it would be appropriate to recover any potential holding loss?

See our response to question 18. It is not appropriate for BT to recover any holding loss resulting from this exercise and so question 19 is not relevant.

Question 20: What do you believe would be the most appropriate way to implement changes relating to pricing of specific products? What timeframe do you believe would be appropriate for such implementation?

See our response to question 18. It is not appropriate for BT to recover any holding loss resulting from this exercise and so question 20 is not relevant.

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