

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title: Valuing Copper Access

To (Ofcom contact): Graeme Hodgson

Name of respondent: Aidan Paul

Representing (self or organisation/s): Vtesse Networks

Address (if not received by email):

CONFIDENTIALITY

What do you want Ofcom to keep confidential?

Nothing

Name/address/contact
details/job title

Whole response

Organisation

Part of the response

If there is no separate annex, which parts?

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Name

Signed (if hard copy)

We have submitted to you the official text of the proceedings of the Valuation Tribunal hearing between British Telecommunications plc V Central Valuation Officer, which took place on various dates in October 1997 and March of the following year, together with some calculations extracted from it. (reference Rating and Valuation Reporter)

What has this to do with the cost of copper, you may ask?

The purpose of the Valuation Tribunal was to determine what the Rateable Value of the BT "hereditament" should be for the payment of non-domestic business rates.

The "hereditament", the arcane term used for the unit of rateability, comprised all of BT's properties and its network, including the whole access network. It is thus an upper bound on the rental value that BT was attributing to its network at that time. The aim of a Rateable Value is to determine what a hypothetical tenant would pay to a hypothetical landlord, in order to determine the fair market rental value for the assets in question.

The purpose of Local Loop Unbundling is to replace the hypothetical with the actual. The imputed rental value per line from BT's rateable value is not exactly equivalent to the rental price of a fully unbundled local loop, as the RV does not include an allowance for maintenance, for example. However, there should be some correspondence.

The actual comparisons are, however, startling. In the Valuation Tribunal, BT was arguing that the imputed rental value was under £10 per line per annum for tax purposes. The final settlement, and an approximation to today's imputed rental value, is equivalent to around £16 per line.

The Valuation Tribunal case contains a summary of all the major economic and financial assumptions prevailing at that time, and give a significant insight into BT's thinking when it was arguing from the other side of the table for what is under any basis a low rental value on its entire network. Whilst time has moved on since the Tribunal hearing, the economic and financial circumstances have not changed sufficiently to explain these anomalies.

This insight is very much a top down approach, but given the huge discrepancies between the imputed rental charge agreed for tax purposes, and the subsequent bottom up analysis undertaken to determine line rental for LLU, I strongly suggest that OFCOM investigate these details further, including the detailed economic and financial analysis made available to the Tribunal.

Vtesse Networks
11th February 2005