



## Clarifications on Ofcom WLA Charge Controls Consultation

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# About this document

In response to stakeholder queries on the Ofcom WLA charge control consultation, specifically the Wholesale Local Access Consultation Models, we set out below several clarificatory statements. The questions are arranged by the model they relate to, and worksheet or cell range references are provided where necessary.

## Base year

*The Asset Utilisation (GRC) tab totals the GRC. We would expect the total values to equal those on the '15-16 WLA Base Year' worksheet, however they do not equate. Please could you explain why these values do not equate?*

This will be addressed for the purposes of our final Statement - however please note that we do not rely on these forecasted costs in our charge control proposals and instead rely upon bottom up model outputs.

## Control Module

*Worksheet: Scenarios, Cell Range F35:AR35 - These figures are for the assumed % change in internal share of GEA lines, therefore should =RANDBETWEEN(4,7)/100 be negative rather than positive?*

The formula should have been: =RANDBETWEEN(-4,-7)/100 . However, we would expect (and highly recommend) stakeholders picking a number between -4% and -7% and hardcoding this into the cells since otherwise the formula will change the figures every time the workbook is saved and/or something else is changed.

## Cost Recovery

*Within Ofcom's bottom up model, a figure for duct cost allocated to FTTC rentals of £19.3m is used – per annex 12.201 – tie ducts between the PCP and FTTC cabinets are not shared with other services, so are explicitly modelled on the bottom up model. This is included within the FTTC Rentals Service LRIC (which is in contrast to the treatment of duct for the copper services). What is the source of the figure and the rationale for including within GEA LRICs?*

The £19.3m randomised figure was calculated by:

- Taking the depreciation duct costs BT attributes to GEA components/services.
- Adjusting the number by applying a commercial split informed by BT's duct GRC attributed to GEA components/services, for which BT provided a commercial split.
- Adding the corresponding cost of capital by multiplying the Commercial NRC attributed to GEA components times the relevant ROCE.

The rationale for including this cost within the GEA LRIC is because we used this FAC figure as a reasonable proxy for duct costs which are incremental to the fibre access deployment. We considered that BT's RFS LRIC was not a reasonable proxy on the basis that it was too low when compared against BT's GEA specific duct capex. Please see Annex 13 paragraph A13.66.

*Why is 'Unit years remaining life' nil for components with a 1 year asset life?*

This is because components with 1-year lifetime are treated effectively as opex and therefore are assumed to be recovered within the same year they are incurred (so no return on capital is allowed to be earned on these components).

*Please could you explain why, if the asset life is 1, we take current year investment and not prior year?*

This is because components with 1-year lifetime are treated effectively as opex, therefore are assumed to be recovered within the same year they are incurred (so no return on capital is allowed to be earned on these components).

*Please explain why Customer Site Installation costs are not included in the cost recovery for GEA FTTC Connections? The Routing Factor for Customer Site Installations includes costs of network element Engineer Premise Visit but was left out in the aggregation of GEA FTTC Connection service.*

This is because the proposed charge control is imposed on BT's PCP-only connection service which does not require an Engineer Premise Visit.

*GEA Ceases (Software Configuration) is identified in the Routing Factor table to be assigned to GEA Other and GEA Connections and Customer Site Installations, however in the annex it states that it is recovered in FTTC Rentals - Please could you clarify where GEA ceases are recovered?*

GEA ceases are included in the bottom-up model as GEA Software Change. However, these costs were then reallocated to GEA rentals in the Top-down model (see Annex 11 of the WLACC consultation document).

*Worksheet: Service\_Costing, Cell Range: \$G\$136:\$AB\$235 - Please could you explain what these inputs represent, and why are they all 100% ?*

This is an extra functionality added to the model in case we need to make adjustments to the routing factors. Given that no adjustments have been made, all cells are 100%.

*Worksheet: Outputs\_TD Model, Cell Range: \$G\$35:\$AB\$35 - Please could you clarify where these costs get recovered?*

These costs are recovered through the Managed Install service which Ofcom is not proposing to charge control.

*Worksheet: Outputs\_TD Model, Cell Range: \$N\$92:\$O\$92 - Please could you provide the rationale behind TD costs being multiplied by 0.6?*

This is an assumption which was informed by the bottom-up evidence regarding the split between total annual depreciation costs and the total cost of capital over the charge control period.

*Worksheet: Outputs\_TD Model, Cell Range: \$N\$94:\$O\$94 - Please could you explain why the TD costs are being multiplied by 0.4 here?*

This is an assumption which was informed by the bottom-up evidence regarding the split between total annual depreciation costs and the total cost of capital over the charge control period.

*Please could you explain why the annual cost of capital is calculated using the prior year NRC and not an average of the prior year and current year NRCs as per RFS MCE calculation?*

This is to ensure internal consistency within our bottom-up model calculations as CCA depreciation costs are calculated in a similar way by taking the prior year GRC and spreading it over the corresponding asset's lifetime.

## CPI-X

*Worksheet: Product Costs (LRIC), Cell Range: G685, I685 - Is the note that 'Other LLU is primarily MPF' and 'SMPF only has rentals, connections, and single migrations' correct? Please could you provide rationale for this?*

We expect the majority of costs in Other LLU ancillaries to relate to MPF rather than SMPF within the charge control period. We have applied the simplification in the model that it is all MPF (which may understate the amount of SLGs to Other LLU ancillaries, but not understate the overall SLGs in the WLA market).

*Please could you provide the source of Usage factor calculations and assumptions?*

We used base year GRCs (split by both service and component) as provided by BT to allocate overall component volumes to individual services, and used this to determine usage factors (i.e. component volumes divided by service volumes).

*Worksheet Cap Ex 1516 - For each change to asset life, please provide the rationale and/or source of changing it to the number of years it states in the model?*

We have assessed asset lives by reference to BT's book lives.

*Worksheet: Asset Price Changes - Only 'Access' components have RPI attached -Please could you provide further rationale for this?*

We set out in the consultation documents that we have applied RPI to duct and copper assets (consistent with CCA revaluation) and assumed other assets are flat in nominal terms (see A15.3). Within the model we have applied RPI to all access assets rather than just duct and copper (i.e. including access fibre) but this only impacts forecasted GEA component FAC which we do not use when forecasting proposed charges for the WLA CC.

*FTTC connections, migrations, and other are all calculated using Rentals volumes from the volumes model - Please could you provide further rationale for this?*

We have looked into this and found that it has a very small impact on final proposed charges. *You are welcome to provide representations on this within your consultation response.*

## Volumes

*Worksheet: Other Forecasts, Cell Range: L192 - Cell multiplies by the internal dampening factor rather than external. Can you please clarify if it needs to be multiplied against the internal or external dampening factor?*

This should be using external rather than internal (but it is the same dampening factor for both so the change has no impact).

*A10.10 states OR lines per household fall from 0.87 to 0.80 in the period 2015/16 to 2020/21. However, in the model, this does not reconcile as it falls to 0.82. As this number is*

*calculated based on forecasts of OR residential lines and forecasts of households with fixed lines, please could you provide clarity on which figure is the correct one to use?*

The model figure of 0.82 is correct, and the documentation incorrectly quotes 0.80.

*A10.45 states the business site dampening factor is 1.6 due to observed flattening in 2015/16, but in the model it is set at 1.4: Please could you provide clarity on which figure should be used? Please could you explain why using a lower dampening factor, would not ignore the current economic uncertainty, which Ofcom state themselves in A10.46 (which would be expected to impact the growth in the number of small and medium businesses)?*

The model figure of 1.4 is correct, and the documentation incorrectly quotes 1.6.

## **Network Costs**

*Annex 20 described how bandwidth growth rates were derived but did not explicitly explain the rationale for 2015/16 to 2018/19. Notes in column AD commented: "input from CPs". Please could you provide further explanation?*

Telecom providers provided busy hour bandwidth demand forecasts (on a per line basis) from 2015/16 to 2018/19. Using this data we calculated an average demand forecast for the whole Openreach platform, weighted by each CP's SFBB volumes.

*The MEA adjustment for DSLAM capacity contains various calculations for cabinet and access cards adjustments due to increasing port capacity. Please could you explain the economic rationale for that calculation? Please could you provide an explanation of why this does not continue beyond 2018/19?*

For a number of FTTC network elements we observed changes in their capacity over the modelling period. This was the case of DSLAMs and access cards. However, the bottom-up model does not allow the capacity of a network element to vary over time (albeit the overall network capacity may grow through the number of DSLAMs in the network, the capacity of a unit DSLAM doesn't). Therefore, we have captured the expected changes in the elements' capacity in the form of MEA adjustments by adjusting the unit cost trends of the relevant components. This is consistent with the way we have modelled capacity growth in other charge controls, such as in the MCT model.

The reason for not going beyond 2018/19 is because we haven't seen evidence indicating that DSLAM capacity will grow any further.

*Please could you explain what routing assumptions and calculations were used to determine the cable lengths from the geospatial analysis?*

To calculate cable lengths, Cartesian used BT's cabinet and exchange locations for each year of their commercial NGA rollout, and applied a shortest route algorithm which follows existing roads. To calculate the lengths of the different types of cables, we analysed the points where routes from cabinets to their exchange would superpose: we used the dimensioning rules shown in the Figure 11 of Annex 20 (Cartesian Report).