

Promoting competition and investment in fibre networks: Telecoms Access Review 2026–31

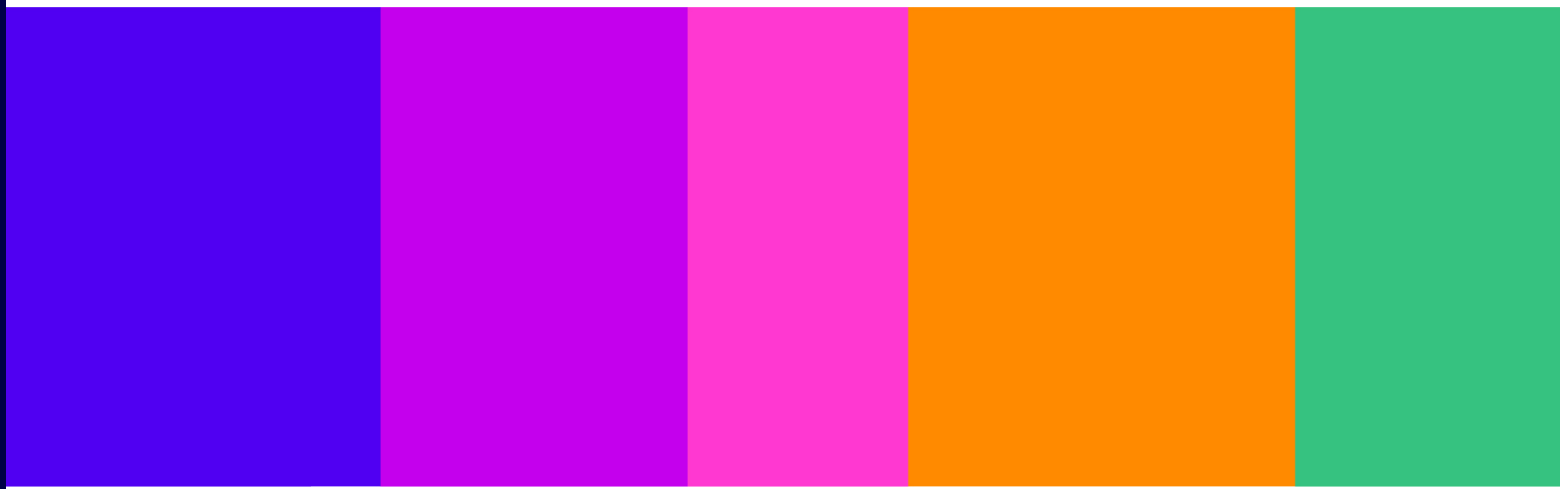
Volume 6: Regulatory financial reporting

Non-confidential version for publication

Consultation

Published 20 March 2025

Closing date for responses: 12 June 2025



Contents

1. Overview.....	3
2. Introduction.....	4
3. Regulatory Reporting Remedies in the Telecoms Access Review.....	8
4. Published Performance Schedules.....	12
5. Preparation and assurance requirements.....	35
6. Information provided to Ofcom.....	56
7. Legal tests.....	62

1. Overview

This volume sets out our proposed regulatory financial reporting requirements on BT in the markets covered by TAR26. BT's regulatory reporting would be subject to these requirements from April 2026 for five years.

In WFTMR21, we made significant changes to the preparation and presentation of the Regulatory Financial Statements (RFS) and the information provided privately to Ofcom. We propose to retain many of these requirements but propose some changes to reflect our proposed approach in TAR26, submissions received from stakeholders to date, and our experience of using BT's RFS since WFTMR21. These proposed changes will ensure the RFS remain fit for purpose.

What we are proposing – in brief

We propose to impose regulatory financial reporting requirements on BT which require the production of RFS. The main changes compared to WFTMR21 are summarised below.

In relation to the presentation of BT's published RFS, we propose to:

- Require BT to publish a new schedule showing a breakdown of the attribution of PI costs to downstream SMP markets.
- Align service level reporting with our proposed remedies, e.g. in WLA markets we propose that BT reports FTTC and FTTP 80/20 services rather than the current 40/10 services.

In relation to the preparation of the RFS, we propose to:

- Change the annual indexation of duct, copper and pole assets from RPI to a flat 2% rate.
- Amend the materiality threshold for the change control notification and reconciliation report so that BT is required to disclose the impact of changes to the RFS that affect certain figures by the higher of 5% and £5m. We also seek stakeholder views on whether to amend the requirement to report in the reconciliation report the impact of methodology changes already published in the change control notification.
- Require BT to separately identify in its regulatory accounting system i) all services that it is required to publish in the RFS, and ii) all services in SMP markets with total revenues above £5m and iii) any other services we direct. Revenues and costs must be allocated to all such services unless otherwise agreed with Ofcom.
- Require BT to separately identify in its regulatory accounting system i) costs and income associated with exchange closure and copper recovery and ii) volumes, revenues and costs of different types of WLA connections.

In relation to the information BT provides us privately, we propose to:

- Remove the requirement for BT to provide us with data and models used by its cost accounting software to produce the RFS.
- Require BT to provide us with volume, revenue and cost information on all SMP services in its regulatory accounting system, alongside a breakdown of component costs.
- Require BT to provide us with financial information on its exchange closure and copper recovery programmes.

2. Introduction

Purpose of regulatory reporting

- 2.1 BT is currently subject to regulatory financial reporting requirements across all of the wholesale fixed telecoms markets in which it is regulated. These requirements are imposed on BT by way of a significant market power (SMP) condition set in each regulated market, and directions imposed in each market pursuant to the associated SMP condition. The SMP condition sets out our general regulatory financial reporting requirements, including accounting separation and cost accounting. The directions then set out our detailed regulatory financial reporting requirements.
- 2.2 As part of these requirements, each year BT must prepare its RFS according to a defined framework and methodology. The RFS include published statements as well as information that is not published but submitted to Ofcom privately.
- 2.3 BT's regulatory financial reporting obligations secure the creation and retention of the information needed for our regulation of SMP markets, particularly price controls, to be, and be seen to be, effective. They provide us with the information necessary to help us make informed regulatory decisions, such as cost information to support price controls on an ongoing basis, and information necessary to assess the impact and effectiveness of our decisions, for example, trends in the usage and returns associated with regulated services. They also enable us to monitor and, if necessary, enforce no undue discrimination and some price control regulations.
- 2.4 Publication of some information helps inform stakeholders so they can have confidence that BT is complying with its obligations and that regulation is effective and appropriate to achieve its purpose. It enables stakeholders to identify and bring issues to our attention and effectively contribute to the regulatory regime. This promotes confidence in the market, which in turn creates the conditions for effective competition.
- 2.5 We have previously said that, consistent with our duties, effective reporting should have the following attributes:¹
- **Relevance.** The information needs to answer the right questions, in the right way and at the right time.
 - **Reliability.** The underlying data must be reliable, suitable rules for treatment of data must be chosen and those rules need to be followed.
 - **Transparency.** The basis of preparation should be understood by the users of the reports and the presentation of the data should be clear.
 - **Proportionality.** The reporting requirements should be proportionate to the benefits.
- 2.6 We briefly describe below the purpose of the SMP condition and changes to the directions we propose to impose on BT.

¹ See for example paragraph 1.7 Volume 6 WFTMR21.

SMP Condition

- 2.7 The “Regulatory Financial Reporting” SMP condition we impose on BT includes general requirements for accounting separation and cost accounting. The SMP condition also requires BT to produce the RFS and other accounting documents as directed by Ofcom.
- 2.8 The purpose of this SMP condition is to ensure that sufficient and robust information is published by BT and provided privately to Ofcom to enable us to perform our duties and for stakeholders to have confidence that BT has complied with its SMP conditions. More specifically, this SMP condition serves as a basis for imposing directions on BT that set out detailed regulatory financial reporting requirements.

Directions

- 2.9 We currently impose on BT a set of six directions to implement our detailed regulatory financial reporting requirements, though there are exceptions in some markets where certain directions may not be relevant. We have reviewed the directions imposed under the current SMP Condition to ensure the information we require BT to provide continues to meet the reporting attributes set out above. We propose to retain five of these directions (with amendments in some cases) and remove one of them, relating to network components. We set out our proposed directions in section 3.

Table 2.1: Regulatory reporting directions

Current direction	Proposal
Regulatory Accounting Principles Direction	Retain
Consistency with Regulatory Decisions and Regulatory Asset Value Direction	Retain, with amendments
Audit of the RFS Direction	Retain
Reconciliation Report Direction	Retain, with amendments
Preparation, Delivery, Publication, Form and Content Direction	Retain, with amendments
Network Components Direction	Remove

Proposed SMP markets

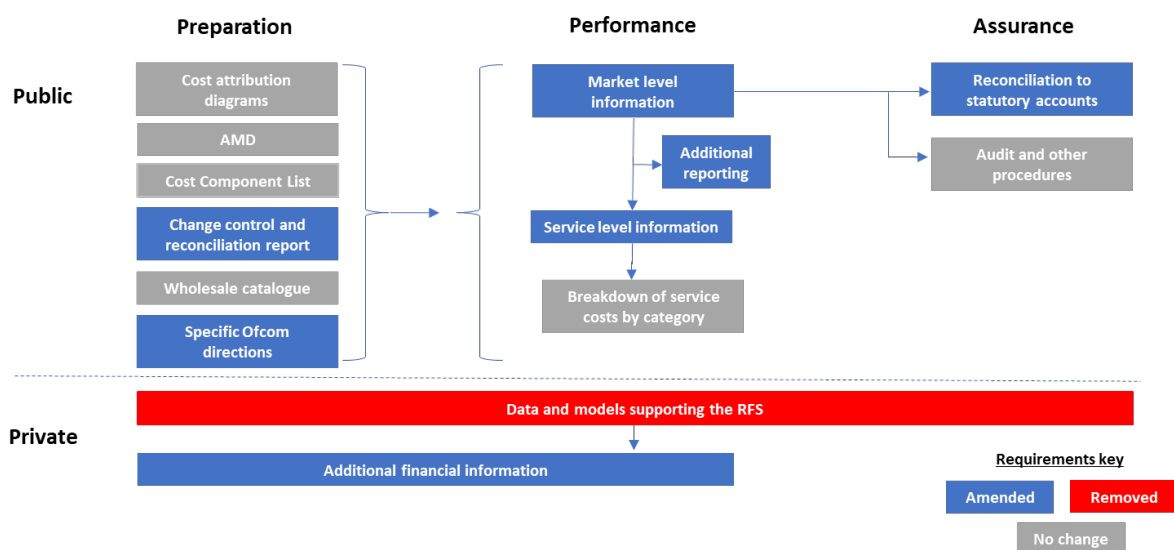
- 2.10 In Volume 2 we proposed that BT has SMP in the following product and geographic markets:
- the supply of wholesale access to telecoms physical infrastructure for deploying a telecoms network (in the UK excluding the Hull Area);
 - the supply of wholesale local access at a fixed location (Area 2 and Area 3);
 - the supply of Leased Lines Access (Area 2, Area 3 and High Network Reach areas); and
 - the supply of Inter-exchange Connectivity Services (BT only and BT+1 exchanges).

- 2.11 In this volume we explain that we propose to apply regulatory financial reporting remedies on BT in each of these proposed SMP markets as part of our package of remedies to address the competition concerns identified in our market assessment.
- 2.12 In Volume 3, we propose transitional arrangements on IEC services at exchanges that are being deregulated. The objective of these arrangements is to ensure a sustainable transition in the market for the supply of IEC services at these exchanges. Our current view is that the proposed transitional arrangements are sufficient to achieve this aim and do not consider it is necessary or proportionate to impose regulatory reporting obligations on BT in relation to IEC services subject to transitional arrangements.

Structure of this volume

- 2.13 We currently require BT to publish information relating to the preparation of the RFS, the financial performance of regulated markets and assurance over the RFS. We also require BT to provide us with information privately.
- 2.14 The diagram below illustrates the main documents and schedules we require BT to publish and provide to us in terms of preparation, performance and assurance. We have reviewed each of these and the colour coding indicates whether we propose to amend existing requirements (blue), retain them unchanged (grey) or remove them (red).

Figure 2.1: Illustration of current public and private requirements



- 2.15 We discuss each of these requirements below, summarising the current approach (where relevant), setting out our proposals and saying how these will be implemented. We are proposing to impose SMP conditions supported by five directions as follows:

- Regulatory Accounting Principles Direction
- Preparation, Delivery, Publication, Form and Content Direction ('Form and Content Direction').
- Consistency with Regulatory Decisions and Regulatory Asset Value Direction ('Consistency Direction')
- Audit of the RFS Direction
- Change Control and Reconciliation Report Direction

- 2.16 As noted above, we propose not to reimpose the Network Components Direction, as explained in section 4.
- 2.17 We explain why we consider our proposals are appropriate by reference to the reporting attributes and the approach to regulation set out in Volume 1.
- 2.18 The rest of this consultation is structured as follows.
- **Section 3: Regulatory reporting remedies in TAR26.** This section sets out our proposals to impose an accounting separation and cost accounting remedy (together the “regulatory financial reporting remedies”) on the proposed SMP markets.
 - **Section 4: Published performance schedules.** This section sets out our detailed proposals for the market and service level schedules published in the RFS (the ‘performance’ category in the diagram above) for each of the proposed SMP markets. These proposals will be imposed via the Form and Content Direction.
 - **Section 5: Preparation and assurance requirements.** This section sets out our proposals for the reports and schedules we require BT to publish to demonstrate how the RFS have been prepared and provide assurance to stakeholders (the ‘preparation’ and ‘assurance’ categories in the diagram above). This section also includes proposals on how financial information should be prepared for proposed SMP markets to ensure consistency with regulatory decisions. It covers the Regulatory Accounting Principles Direction, the Consistency Direction, the Audit of the RFS Direction, and the Reconciliation Report Direction. It also addresses a few points that are implemented via the Form and Content Direction.
 - **Section 6: Information provided to Ofcom.** This section sets out our proposals for the information BT is required to provide Ofcom privately (the ‘private’ category in the diagram above). These proposals will be imposed via the Form and Content Direction.
 - **Section 7: Legal tests.** This section sets out why we consider our proposals meet the relevant legal tests set out in the Act. The proposed SMP condition and associated directions are set out in Volume 7.

3. Regulatory Reporting Remedies in TAR26

Regulatory framework

- 3.1 We set out the relevant regulatory framework for market reviews and the imposition of SMP conditions in Volume 2.
- 3.2 In relation to regulatory reporting, we have powers under the Act to impose SMP conditions including the following:
- a) a requirement to maintain accounting separation, including requirements about the accounting methods to be used in maintaining the separation.²
 - b) requirements to publish information for transparency purposes, with the information and the manner of publication to be directed by us.³
 - c) rules about the use of cost accounting systems for the purposes of price controls and about the recovery of costs and cost orientation.⁴
 - d) requirements in relation to the application of presumptions in the fixing and determination of costs for the purposes of the price controls, recovery of costs and cost orientation rules, and the cost accounting system.⁵
- 3.3 Where we impose cost accounting requirements, we also have a duty to set an SMP condition which requires the dominant provider to publish a description of the cost accounting system and to include in that description details of:
- the main categories under which costs are accounted for; and
 - the rules applied for the purposes of that system with respect to the allocation of costs.⁶

Regulatory financial reporting

- 3.4 We propose to impose accounting separation and cost accounting obligations in each of the proposed SMP markets. We propose to implement these obligations by way of a single SMP condition and associated directions (see Volume 7) which specify what information we require BT to prepare and provide for each market. Further details of the accounting separation and cost accounting obligations are set out below, with reasoning on specific aspects of them in the following sections.

² Sections 87(7) and 87(8)

³ Section 87(6)(b)

⁴ Section 87(9)(b) and (c)

⁵ Section 87(10)

⁶ Section 87(11)

Accounting separation

- 3.5 We propose to retain an accounting separation obligation on BT in each of the proposed SMP markets. We consider that this obligation is necessary to monitor the overall impact and effectiveness of the remedies proposed and, in particular, to monitor BT's activities with regard to its no undue discrimination obligations.⁷ The obligation is also necessary to give transparency to stakeholders that BT has complied with its SMP conditions. Such transparency provides reassurance to our stakeholders which promotes competition in the markets concerned and enables Ofcom to benefit from stakeholder input in monitoring compliance. Additionally, it supports the overall success of the regulatory framework by requiring robust information to be created and retained during a market review period. This provides us with an evidential base to monitor the effectiveness of the current regulation, and for designing appropriate SMP regulation for the next review period, should there be a continued need for it.
- 3.6 Requiring BT to produce financial statements on each regulated wholesale market, combined with an obligation to attribute costs in a fair, objective and transparent way (via the cost accounting obligation) can also help prevent unfair cross-subsidy by ensuring that costs are not inappropriately loaded onto one set of regulated products to the benefit of another set of regulated products or unregulated products. We consider that this helps ensure that competition develops fairly, which ultimately benefits consumers, and is the least onerous obligation necessary to ensure a mechanism exists to allow us and stakeholders to monitor potentially discriminatory behaviour by BT.
- 3.7 We consider that our proposal to impose an accounting separation obligation, together with a cost accounting obligation (see below), will help ensure the regulatory reporting objectives described above are met.

Cost accounting

- 3.8 Cost accounting obligations require the dominant provider to maintain a cost accounting system (a set of processes and systems) to capture the costs, revenues, assets and liabilities associated with the provision of services and to attribute them in a fair, objective and transparent manner to individual services in order that the costs of individual services may be determined.
- 3.9 We propose to retain a cost accounting obligation in the proposed SMP markets to ensure that the processes and rules used by BT to attribute revenues and costs to individual markets and services are fair, objective and transparent. The cost accounting obligation is an important means of ensuring that:
- we have the necessary information to monitor and assess the effectiveness of price controls, in particular to ensure that the pricing remedies we impose continue to address the competition problems identified and to enable our timely intervention should such intervention be needed;

⁷ The accounting separation obligation requires BT to account separately for internal and external sales, which helps Ofcom and stakeholders monitor the activities of BT to ensure it does not discriminate unduly in favour of its own downstream business. In volume 3 we propose to apply no undue discrimination obligations on BT in each of the proposed SMP markets.

- costs are attributed across markets (and the individual services within them) in a fair, objective, transparent and consistent manner. This mitigates the risk of cost over-recovery or that costs might be unfairly loaded onto particular products or markets, promoting confidence in the market;
- there is transparency (via publication of the processes and rules followed by BT) which allows us to effectively challenge attribution processes and rules which we do not consider to be fair and objective;
- publication (i.e. reporting) of cost accounting information aids transparency, providing assurance to stakeholders about compliance with SMP obligations, allowing stakeholders to support Ofcom's monitoring of compliance and more generally promoting competition by providing reassurance that regulatory conditions are complied with; and
- BT records all information necessary for the purposes listed above at the time that relevant transactions occur, on an ongoing basis. Absent such a requirement, there is a possibility that the necessary information would not be available when it was required for monitoring and enforcement purposes, and in the necessary form and manner.

3.10 Absent a cost accounting requirement, some of our price controls in the current regulatory period would likely be ineffective in addressing BT's SMP, as stakeholders could not be confident that the controls were effective to enable them to compete against BT on a fair basis. Price regulation generally would be likely to be less effective because stakeholders would not have confidence that if price regulation continued to be required in the next regulatory period, the necessary information would be available for Ofcom to implement it. Finally, ongoing provision of information allows Ofcom and stakeholders to monitor, within the review period, the appropriateness of the assumptions made in setting charges and therefore enables a better ongoing understanding of the effectiveness of the remedies.

Directions

3.11 We propose to impose five directions on BT under the SMP Condition as follows. The detailed requirements under each of these directions are set out in the following sections.

- Regulatory Accounting Principles Direction. The regulatory accounting principles are needed as a set of guiding principles with which BT's regulatory financial reporting must comply to ensure it achieves the objectives of regulation. The proposed requirements are set out in Section 5.
- Form and Content Direction. This direction is needed to provide full details of the financial information to be included in the published RFS and to be provided to us privately. The proposed requirements are set out in Sections 4, 5 and 6.
- Consistency Direction: This direction is needed to specify how BT should prepare the RFS to be consistent with our regulatory decisions. The proposed requirements are set out in Section 5.
- Audit Direction. This direction specifies the audit requirements on the RFS, which are needed to give users confidence that the information provides a fair reflection of financial performance, is free from error and has been prepared following the accounting methodology statements published by BT and relevant directions issued by Ofcom. The proposed requirements are set out in Section 5.

- Change Control and Reconciliation Report Direction. This direction sets out the materiality threshold applying to the Change Control Notification. It also requires BT to publish in a reconciliation report the impact of all material changes and errors each year with an accompanying assurance report from its regulatory auditors. The direction is needed to ensure the impact of changes in methodology and error corrections are transparent. The proposed requirements are set out in Section 5.

Consultation question

Question 6.1: Do you agree with our proposal to retain the accounting separation and cost accounting remedies on each of the proposed SMP markets? Please set out your reasons and supporting evidence for your response.

4. Published Performance Schedules

Introduction

- 4.1 The publication of financial information contributes to an open and competitive market and helps create an effective regulatory regime. We propose to make limited changes to the information presented in the RFS to ensure they remain relevant throughout this five-year review period and help secure that SMP regulation is and remains effective.
- 4.2 In this section, we discuss the format of the ‘performance’ schedules and propose specific requirements for each of the proposed SMP markets.
- 4.3 In the published RFS, financial information currently relates to three broad areas:
- **Market level information.** This is information on the revenues, operating costs, mean capital employed (MCE) and returns on MCE for each SMP market and for BT Group overall.
 - **Service level information.** This generally includes the revenue, volume, price, operating cost, MCE and returns on MCE for specific services or groups of services associated with SMP markets.
 - **Breakdown of service level costs.** This includes a breakdown of service level operating costs by cost category and division (e.g. Openreach versus rest of BT), and service level MCE by asset type (e.g. duct, fibre, etc).
- 4.4 In some SMP markets, we also require additional reporting which generally take the form of notes to the main schedules above. For example, in the PI market BT is currently required to provide additional information on network adjustments.
- 4.5 We set out our proposals on each of these areas below. We then set out what we propose the specific schedules will look like for each of the proposed SMP markets.

Market level information

- 4.6 BT is currently required to publish three market performance schedules.⁸
- **Performance summary by market:** this shows revenues, operating costs, returns, MCE and return on MCE for each SMP market as well as Openreach, the rest of BT and BT Group overall.
 - **Attribution of operating costs.** This shows a breakdown of operating costs and depreciation by cost category for each SMP market as well as Openreach, the rest of BT and BT Group overall. It also shows a breakdown of operating costs by division.
 - **Attribution of MCE.** This shows a breakdown of MCE by asset category for each SMP market as well as Openreach, the rest of BT and BT Group overall.

⁸ Pages 16 to 26 and 40 to 42 of the 2023/24 RFS.

- 4.7 In the WFTMR21 Statement, we reviewed the format of these schedules to improve:
- a) the visibility of operating costs incurred by Openreach compared to those attributed from other parts of BT and the reporting of assets used to provide Openreach services;
 - b) the reporting of financial information related to the PI market; and
 - c) the visibility of specific items allocated to SMP markets.⁹
- 4.8 We propose to continue to require BT to provide these market performance schedules in their current format because they provide an overview of the markets where BT has SMP and demonstrate that BT is providing the data required under its reporting obligations. They also help us and stakeholders assess the ongoing impact and effectiveness of the remedies imposed on each market, e.g. by reference to trends in revenues, costs and returns which have been prepared on a consistent basis across all markets. The schedules also show the outcome of BT's cost attribution decisions. We also propose to continue to require BT to publish aggregate information on non-SMP parts of Openreach and the rest of BT to ensure the overall coherence of the RFS and that Openreach and BT Group information can be reconciled to the BT Group statutory financial statements.
- 4.9 We note that as we propose to change the boundaries of geographic markets for this review period (e.g. WLA Area 2 will be larger and WLA Area 3 smaller compared to WFTMR21), market level information in the RFS from April 2026 will not be directly comparable to previous periods.
- 4.10 We briefly describe the format of each market performance schedule below.

Performance summary by market schedule

- 4.11 We propose to retain the current format of this schedule. Our proposed performance summary by market schedule is set out in Volume 7.¹⁰
- 4.12 As per the current schedule, financial information on each SMP market will be reported in a separate column, along with a column for ancillaries which are shared across SMP markets like accommodation and power.
- 4.13 We propose that, in this schedule, the PI market continues to be reported on the same basis as at present. For PI revenues, the schedule will show external purchases of PI, internal purchases of PI (e.g. sales to other parts of BT such as BT's Business division) and inputs to downstream services (i.e. the balancing figure to be attributed to downstream Openreach services).¹¹ We note that in BT's 2023/24 RFS, a figure of £19m was shown under the 'internal purchases' heading. We understand that this figure did not represent the consumption of PI by downstream divisions of BT, but rather it captured the allocation of PI costs to BT's core network.¹² We understand that BT's 2024/25 RFS will clarify this. We propose that in future BT includes a note, under the performance summary by market schedule, to explain the reason for any allocation of PI costs outside of Openreach.
- 4.14 The schedule will also continue to include an operating cost row called 'attribution of PI costs.' This row will be blank for the PI market column but for other markets it will show

⁹ WFTMR 21, Volume 6, paragraph 3.6.

¹⁰ The 2023/24 performance summary by market schedule can be found on page 17 of BT's 2024 RFS.

¹¹ The 'inputs to downstream services' item includes a return on capital employed.

¹² Although Openreach manages all PI assets, under the BT Commitments it does not provide core connectivity. The £19m figure represented an allocation of PI costs to the core network.

the attribution of PI costs from the PI market to other downstream markets. This would mean that downstream markets will not include assets associated with duct and poles, but instead include an operating cost attribution from the PI market. This is consistent with how the PI market is currently reported.

- 4.15 We consider the reporting of PI in this schedule would be consistent with our approach to PI pricing (Volume 4, Section 4) and guidance on no undue discrimination in relating to pricing (Annex 11). As explained in Annex 11, Openreach is not required to pay for PI services on the same basis as other telecoms providers. However, there needs to be an attribution of PI costs (net of external sales) to downstream SMP markets for using the PI assets, and this schedule shows that allocation. Some pre-consultation submissions from stakeholders requested more transparency on the attribution of PI costs to downstream SMP markets. We set out our proposals on PI reporting below.
- 4.16 Consistent with current requirements, the schedule will show a single line for Current Cost Accounting (CCA) adjustments, with the detail (i.e. holding gains/losses, supplementary depreciation and other CCA adjustments) reported in the attribution of operating costs schedule (discussed in the next section) to avoid duplication.
- 4.17 Also consistent with current requirements, specific items will be shown as a separate row on the schedule. As the nature and size of specific items can change significantly year to year, we also propose to continue requiring BT to include a note below the summary of market performance schedule explaining which specific items reported in the BT Group statutory financial statements have been attributed to SMP markets.

Attribution of operating costs and MCE schedules

- 4.18 We propose to retain the current format of these schedules, which provide further information on the operating costs and MCE reported in the performance summary by market schedule. These schedules help stakeholders understand the main categories of operating costs and MCE in SMP markets, how these have been allocated between regulated and unregulated markets and how these relate to service costs (as explained below, we propose that service costs continue to be broken down using the same cost and asset categories).
- 4.19 The attribution of operating cost schedule will continue to show the following:
- A breakdown of operating costs (before depreciation) using the same cost categories as used in BT's annual report. This will allow stakeholders to directly compare operating costs in SMP markets with operating costs in BT's annual report. We think this will help stakeholders assess the impact of BT's attribution decisions, enabling them to bring issues to our attention.¹³
 - A breakdown of depreciation costs using the same non-current asset categories as the attribution of MCE schedule.
 - A breakdown of CCA adjustments by holding gains/losses, supplementary depreciation and other CCA adjustments, consistent with requirements to date.

¹³ e.g. where stakeholders consider a category of costs has inappropriately been allocated to one or more SMP markets.

- A separate summary of operating costs for cumulo, service level guarantees (SLGs) and leaver costs as these are costs that we typically consider when setting charge controls and which are important to Openreach services.
 - A breakdown of operating costs by BT division. For Openreach, we propose to continue requiring BT to provide a split by ‘service and network delivery’ and ‘Openreach support functions’.¹⁴ The schedule will also include a line for attribution of PI costs, consistent with current requirements. For other divisions, we propose the breakdown should align with the names of BT’s divisions. In the 2023/24 RFS, this meant BT provided a breakdown by Group Centre, Property and Facilities, Technology units, and Consumer and Business. We consider this will help stakeholders understand which other divisions contribute costs to SMP services and identify changes in cost allocations from other divisions over time.
- 4.20 The attribution of MCE schedule will continue to show a breakdown of non-current assets by asset category. We propose to maintain the current categories of duct, poles, copper, fibre, electronics, software, land and buildings, right of use assets, other assets and funded assets (e.g. BDUK). The schedule will also continue to include summary rows for current assets, current liabilities and provisions.
- 4.21 Our proposed schedules are set out in Volume 7.

Service level information

- 4.22 Consistent with previous reviews, we propose to require BT to publish service level information because it can help demonstrate BT’s compliance with remedies (e.g. safeguard caps, basis of charges obligations and no undue discrimination), show the impact of our decisions on the performance of services in SMP markets (e.g. trends in usage and returns associated with regulated services) and, in some cases, illustrate the effectiveness of the remedies imposed (e.g. by comparing trends in costs against charges set by reference to BT’s costs).
- 4.23 We consider information on internal and external revenues, volumes and prices should continue to be provided where this will help stakeholders assess BT’s compliance with, and the overall impact and effectiveness of, our remedies on particular services or groups of services.
- 4.24 Consistent with our views in WFTMR21, we consider that service costs, where required, should be presented on the same basis as market level costs discussed above, i.e. operating costs, MCE and a ROCE, so that they can be directly compared across markets. The ROCE earned by each reported service would also be transparent, making it clearer which services contribute to market returns and allow an assessment of the impact and effectiveness of remedies imposed. We therefore propose that BT reports internal and external operating costs, MCE and ROCE for each service where cost reporting is required.

¹⁴ ‘Service and network delivery’ largely captures the operating costs of Openreach’s Service Delivery, Fibre and Network Delivery and Strategic Infrastructure Development teams while ‘Openreach support functions’ captures the ‘headquarters’ team described on its website: <https://www.openreach.com/about/our-company>.

- 4.25 Where we require BT to publish volume, revenue and cost information on a service, BT must estimate and publish such information unless otherwise directed by Ofcom.¹⁵ We understand that in some cases BT currently includes revenues and costs for some dark fibre services (e.g. patch panels) in the revenues and costs reported for dark fibre connections. We recognise that it might be difficult or unreliable to allocate costs to some services in the cost accounting system (e.g. where volumes are very low). We therefore propose that BT can, with agreement from Ofcom, include revenues and costs for services within revenues and costs reported for other services, but must include a note to the relevant schedule explaining what it has done and why. We have amended the form and content direction in Volume 7 for this proposal.
- 4.26 Later in this section we set out our proposals on which combination of services and baskets BT will be required to publish for each SMP market.

Breakdown of service level information

- 4.27 Consistent with current requirements, we propose to require BT to publish a breakdown of service level costs (where service level costs are required to be published). This requirement can help stakeholders assess the extent to which our remedies are addressing some of the underlying competition concerns and how service costs have developed since our decision. Publishing this information will also help stakeholders understand the impact of BT's cost attribution decisions and provide assurance that attributions have been made appropriately and that the RFS are reliable.
- 4.28 We propose that service level cost breakdowns use cost categories consistent with the market level breakdowns – i.e. using the same operating cost and asset categories. Service cost breakdowns would then be directly comparable across markets, which we consider would help stakeholders understand the impact of BT's cost attribution decisions.

Requirements for each proposed SMP market

- 4.29 This section focuses on the specific requirements for each SMP market in terms of information to be published in the RFS. Given our proposals above, published information broadly falls into three categories: market level information, service level information and any additional market specific reporting. Below we set out our proposals for:
- the market level information to be published in the RFS;
 - the service level information to be published for each proposed SMP market; and
 - any additional reporting required for each proposed SMP market.

¹⁵ For example, later in this section we propose to require BT to allocate costs associated with some pole services to other PI services, to be consistent with our modelling approach.

Market level information to be published in the RFS

SMP markets

- 4.30 Market level information refers to the performance summary by market, attribution of operating costs and attribution of MCE schedules.
- 4.31 We consider that where we find BT has SMP in a market, and we impose regulatory reporting obligations, it is important to publish some information relating to that market. In our view, information on market revenues, costs and returns would generally represent the minimum sufficient level of detail on SMP markets that would allow stakeholders to have reasonable confidence that BT has complied with its SMP conditions, that BT is providing the required data to Ofcom, and the reporting regime overall is working as planned.
- 4.32 The market level schedules show the results of BT's cost allocations between individual regulated markets and between regulated and unregulated markets. We consider that providing stakeholders with the opportunity to assess the outcome of cost attributions provides reasonable assurance to stakeholders that such costs have been allocated consistently and appropriately. It can also mitigate the risk that costs might be unreasonably loaded onto particular markets (and services) since it allows stakeholders to scrutinise and challenge the outcomes of the bases of attribution.
- 4.33 Publication of market level information also allows stakeholders to assess the impact and effectiveness of the remedies imposed, for example by reference to trends in revenues, costs and returns that have been prepared on a consistent basis. This enables stakeholders to contribute to the regulatory regime, bring issues to our attention and ultimately ensure that SMP conditions including our price controls continue to address underlying competition issues.
- 4.34 We consider it is appropriate to continue to require BT to publish market level information to demonstrate the overall reliability and robustness of the RFS. Consistent with current requirements, we therefore propose to require BT to publish market level information for each of the proposed SMP markets.

Cross market ancillaries¹⁶

- 4.35 Some regulated ancillaries support network access in multiple markets. As there could be practical difficulties in identifying whether these ancillaries are supporting network access in one SMP market over another,¹⁷ we currently require BT to report on each of accommodation, power and cablelink ancillaries separately, but in aggregate for each ancillary.
- 4.36 In Volume 4, Section 5, as in WFTMR21, we propose to set the same charge control on these ancillaries in each SMP market, essentially setting a national price rather than different prices by geographic market.
- 4.37 We propose to continue to require BT to report market level information on each of these cross market ancillaries separately, but in aggregate for each ancillary, rather than split by SMP market.

¹⁶ Previously termed 'shared ancillaries' in the WFTMR21.

¹⁷ For example, identifying whether a communications provider has purchased accommodation space to support network access in the PI market versus the WLA market.

Proposal on market level information to be published in the RFS

- 4.38 We therefore propose that BT publishes market level information on each SMP market and cross market ancillaries.
- 4.39 In practice, this means that each SMP market and cross market ancillaries will continue to be reported in a separate column in the performance summary by market, attribution of operating costs and attribution of MCE schedules.

Service level information to be published in the RFS

- 4.40 Service level information includes the revenue, volume, price and costs of specific services or groups of services associated with relevant markets.
- 4.41 The objectives of publishing service level information include:
- **Assess compliance with remedies.** For example, publishing internal and external service level information helps demonstrate compliance with no undue discrimination obligations (e.g. by showing differences between internal and external prices) and provides information to help assess compliance with charge controls.¹⁸ It also helps demonstrate that BT is complying with its accounting separation obligations.
 - **Assess impact and effectiveness of remedies.** Service level information helps assess the extent to which our remedies are addressing some of the underlying competition concerns and provides financial indicators that help stakeholders understand how regulated services develop over the review period. For example: i) where charge controls are cost based and designed to allow BT the opportunity to recover its costs, publishing cost information helps assess the effectiveness of those controls; and ii) where there are concerns about discriminatory behaviour, service level information provides transparency about the relative usage of services by BT and external telecoms providers which could help assess if those concerns have been addressed.
 - **Understand the impact of BT's cost attribution decisions.** Where costs are shared with services in the same market or in other markets, enabling stakeholders to see the effects of BT's attribution of costs on different services provides reasonable assurance that attributions have been made appropriately and that the RFS are reliable.
 - **Contribute to an open and competitive market.** Publishing service level information allows stakeholders to identify and bring issues to our attention which adds credibility to the regulatory accounting regime and ultimately contributes to an open and competitive market.
- 4.42 In general, we consider that service level information should be published at the level at which prices are regulated (e.g. basket, sub-basket or individual service level). However, in some circumstances we may require BT to publish information on sub-groups of services, or individual services within a basket, where this meets any of the objectives above.

¹⁸ For example, cost information where services are subject to basis of charges obligation, revenue information used in basket weightings and price information to compare average prices to price caps.

- 4.43 Similarly, we may require BT to report groups of services rather than individual services where it would not be proportionate to require detailed service reporting¹⁹ or to ensure the overall coherence of the RFS.²⁰
- 4.44 In the rest of this section, for each of the proposed SMP markets and cross market ancillaries, we set out proposals for service level information to be published in the RFS. For each service or group of services we identify, we propose, where appropriate, that BT must publish internal and external volumes, revenues and prices. Where appropriate, we propose that BT must also report service level cost information (operating costs, MCE and returns, as proposed above), and a breakdown of service level operating cost and MCE (as proposed above).
- 4.45 For some markets we also propose additional reporting to monitor the impact and effectiveness of particular remedies e.g. network adjustments for PI.

Physical infrastructure (PI)

Summary of other proposed remedies

- 4.46 We first summarise some of the other remedies proposed in the PI market as reporting information could be used to assess the impact and effectiveness of these, as well as monitor BT's compliance.
- 4.47 In Volume 4, Section 4 we propose cost-based controls on PI rentals for duct, footway box and pole attachment services. These are broadly the same PI rental services that were charge controlled in WFTMR21. However, we explain that we propose to set charges for two pole services (pole top equipment and cable up a pole) to zero, with costs for these services recovered from pole attachment services. Consistent with current controls, we have only proposed PI charges for external customers, based on what we considered to be a fair contribution from external customers to total PI costs. We also propose a basis of charges obligation on PIA ancillaries.
- 4.48 In Volume 3, Section 5 we also propose a no undue discrimination requirement on BT in the PI market and in Annex 11 we explain how we interpret this requirement in relation to pricing for PI rentals and ancillary charges such as network adjustments. Our proposed approach to no undue discrimination in the PI market is unchanged from WFTMR21.
- 4.49 In relation to network adjustments in Volume 4, Section 4 we propose to retain a financial limit of £4,750 per km of spine duct. For poles, where network adjustments are required to provide capacity on a pole, or replace a defective pole, for the purposes of providing a dropwire, then we propose a network adjustment charge of zero, meaning all such network adjustments are spread across all users of PI. This is consistent with current requirements.

¹⁹ For example, where the remedy is at the individual service level, but each service is relatively small it may be proportionate to limit the number of services reported in the RFS by aggregating some services.

²⁰ For example, where only some services in a market are subject to charge controls, we may require an aggregation of 'other services' in that market to be reported so that service totals reconcile to market totals.

Existing requirements from the WFTMR21 Statement

- 4.50 BT is currently required to report information on PI rentals and on network adjustments and other ancillaries.²¹
- 4.51 For PI rentals, BT publishes revenue, volume, average price and cost information (split between internal and external customers, at the level they are regulated (i.e. each duct, facility hosting and pole charge)). BT separately reports external purchases of PI rentals (i.e. sales made to external customers and other parts of BT like its Business division) and those rentals provided as inputs to downstream Openreach services.
- 4.52 Network adjustments are undertaken by Openreach to make its physical infrastructure accessible and ready for use by other telecommunications providers. BT publishes revenue, volume, average price and cost information for network adjustments above the financial limit (currently £4,750 per km of spine duct), split between internal and external customers.
- 4.53 For ancillaries, BT publishes a single line to capture financial information on ancillaries required specifically for PI. This captures PI-specific ancillary services purchased on a one-off basis and excludes any ancillaries included in network adjustments.
- 4.54 BT also publishes two additional schedules relating to network adjustments. The first is a note showing the operating costs and MCE associated with network adjustments and how these are split between those below and above the financial limit. Of those below the limit, the schedule shows whether they have been included in the 'inputs into existing downstream services' or 'PI rentals' categories.²² The second is an appendix showing cumulative internal and external network adjustments, both above and below the financial limit, on an MCE basis.²³
- 4.55 In the WFTMR21 we also noted that, while in principle the remedies in the PI market applied to all duct and poles, in practice some duct assets may not be shareable (e.g. duct used for cabinet connectivity). We required BT to provide an explanation for any duct and pole assets reported outside of the PI market.²⁴

Proposals

- 4.56 Prior to this consultation, some stakeholders raised concerns with how PI was reported in the RFS. These concerns included the following, and we reference these below when setting out our proposals:
- Internal and external revenue reporting: in particular, differences in the approach to internal and external pricing of PI rentals.
 - Transparency over the allocation of PI costs to downstream Openreach services.
- 4.57 Some stakeholders also had concerns about the volatility of CCA adjustments and the impact of this on PI reporting (in particular the reported internal prices associated with

²¹ PI market reporting in the 2023/24 RFS can be found on pages 28 to 33.

²² In the 2023/24 RFS this note is published on pages 28 and 29.

²³ In the 2023/24 RFS this appendix is published on page 99. We propose that these appendices are published after the PI Market Summary.

²⁴ BT includes a note to this effect under the attribution of MCE schedule. In 2023/24 all pole assets and 90% of duct assets were included in the PI market.

inputs to downstream services). We propose changes to the approach to CCA valuation set out in section 5 which will avoid large movements in CCA adjustments in future.

PI rentals

- 4.58 As we are proposing charge controls on the same set of PI rental services as in WFTMR21, we propose to continue to require BT to publish revenue, volume, average price and cost information for PI rentals, split between internal and external customers, at the level they are regulated (i.e. each duct, footway box and pole charge). We also propose that BT continues to separately report external purchases of PI rentals and those same services provided as inputs to downstream Openreach services. In practice, this means that the format of the PI schedule will look the same as it does now.
- 4.59 We do not propose to require BT to separately report in the RFS the pole services where we propose to set charges to zero (pole top equipment and cable up a pole). In section 5, we propose to direct BT to allocate costs associated with these two pole services to pole attachment services, consistent with our proposed approach to cost modelling.
- 4.60 BT currently reports as notes to the PI market schedule i) the kilometres of lead-in duct and ii) the number of poles. We consider this disclosure is helpful to stakeholders and complements the other volume information presented in this schedule and so propose to require BT to retain these notes.
- 4.61 We consider that publishing this information will demonstrate the impact and effectiveness of the remedies imposed on the PI market to enable fair and effective competition, in particular:
- Publishing cost information will help Ofcom and stakeholders assess the effectiveness of the cost-based charge control remedy, for example by showing trends in costs over time.
 - Publishing internal and external revenues and volumes provides transparency about the relative usage of PI by BT and external telecoms providers and indicates how take up of PI is developing. In turn, this helps stakeholders assess the effectiveness of our remedies and contributes to an open and competitive market by allowing stakeholders to bring issues to our attention.
 - Showing external average prices allows stakeholders to see how these compare to the charge controls, which are set based on our fair share assumptions. Showing external average prices also allows stakeholders to see that where non-Openreach parts of BT purchase PI rentals, this meets no undue-discrimination requirements.²⁵
 - Showing equivalent information for the same service headings under ‘inputs to downstream Openreach services’, including the volumes consumed internally and the associated internal revenue, helps demonstrate and promote confidence that BT is attributing PI costs to downstream markets consistent with our fair share assumptions.
- 4.62 Many stakeholder comments received pre-consultation on the approach to pricing associated with external and internal PI rentals are similar to those expressed in the WFTMR21.²⁶ We remain of the view that our approach to regulatory reporting

²⁵ We expect downstream divisions of Openreach (e.g. BT Business) to pay the external PIA price where they use PI to deliver their services.

²⁶ See paragraphs 3.135 to 3.140 of Volume 6 of the WFTMR21.

requirements is consistent with the broader set of remedies we are proposing in the PI market.

- 4.63 Within this PI schedule, the external average price for 'PI rental' services (i.e. external purchases) reflects the regulated prices we have set.²⁷ However, as explained in Volume 4, Section 4, we have not set 'internal' PI prices (i.e. prices that Openreach should charge itself for using PI).
- 4.64 We propose to set charges for external PI rentals based on what we think is a fair share of PI costs. These PIA charges determine how much of Openreach's physical infrastructure costs are recovered from external users of PI. Openreach then recovers the balance of costs not recovered from external users of PI from its downstream services. That is, the PI cost to be attributed to downstream Openreach services represents total PI rental costs (including a return on capital employed) net of any external purchases of PI (e.g. from sales to external customers and other parts of BT like BT Business). The PI cost transferred to downstream Openreach markets, along with the corresponding 'internal revenue', is captured by the PI rental services reported under the 'inputs to downstream services' heading.
- 4.65 The internal average prices for 'inputs to downstream Openreach markets' are calculated by dividing the internal revenue by the internal volume (where internal revenue is set equal to the balance of total PI rental costs not recovered from external users of PI, as described above).²⁸
- 4.66 Under this approach, we would not expect the external average price to be the same as the internal average price. This is because where infrastructure is shared, Openreach and external PI users share the cost of the infrastructure, but where there are no external users using the physical infrastructure, Openreach recovers 100% of the cost from its own downstream services. To the extent that future PI costs and utilisation rates are similar to the assumptions made in our PI cost modelling, we would expect the internal average price to be higher than the external average price.²⁹
- 4.67 As in WFTMR21, we say in Annex 11 that any concerns about discrimination between the level of rental charges paid by external customers and what Openreach pays for its use of the PI infrastructure are sufficiently addressed by our approach to setting external PI rental charges – i.e. in relation to PI rental prices we do not have a concern relating to undue discrimination.³⁰

Network adjustments and other ancillaries

- 4.68 As our proposed remedies related to network adjustments and ancillaries are the same as those imposed in WFTMR21, we propose to retain the same regulatory reporting requirements.
- 4.69 We therefore propose to retain the requirements on BT to:

²⁷ External revenue for PI rentals will equal the regulated price multiplied by volumes.

²⁸ As noted in WFTMR21, this approach to estimating internal PI rental revenue will mean that the reported ROCE for total PI rentals should equal the 'Openreach' WACC determined in this review (which is the WACC applicable to PI services).

²⁹ Going forward, our proposed changes to asset valuation in Section 5 will mean CCA holding gains in the RFS and in the cost modelling would be aligned.

³⁰ We expect downstream divisions of Openreach (e.g. BT Business) to pay the external PIA price where they use PI to deliver their services.

- Publish revenue, volume, average price and cost information for network adjustments above the financial limit, split between internal and external customers. This will help demonstrate BT's compliance with the no-undue discrimination requirements and provide reasonable assurance to stakeholders that it is accounting for these separately.
- Publish a single line to capture ancillaries required specifically for PI. We expect this to capture PI-specific ancillary services purchased on a one-off basis and exclude any ancillaries included in network adjustments.
- Publish a note showing the operating costs and MCE associated with network adjustments and how these are split between those below and above the financial limit. Of those below the limit, the schedule should show whether they have been included in the 'inputs into existing downstream services' or 'PI rentals' categories. We consider that this schedule will help demonstrate BT's compliance with the requirements for reporting network adjustments set out in section 4.
- Publish an appendix showing cumulative internal and external network adjustments, both above and below the financial limit, on an MCE basis. This would mean that, regardless of the treatment of network adjustments in the RFS,³¹ stakeholders could compare network adjustments on a consistent basis, and it would help provide assurance that BT was complying with its no undue discrimination obligations.

4.70 In the 2023/24 RFS BT reported £6.1m of external revenue associated with "Ancillary charges (excl. network adjustments)" with no internal revenue.³² We understand that most external revenue relates to Openreach engineers verifying network adjustments undertaken by CPs. To ensure it is transparent to stakeholders what these ancillary charges represent, we propose to require BT to provide an explanation in a note under the PI schedule as to what the internal and external charges relate to.

Allocation of PI costs to downstream Openreach services

4.71 Currently, PI costs allocated to downstream Openreach markets and services are reported as a single operating cost item in the performance summary by market schedule and the breakdown of service level operating cost schedules. For example, in 2023/24, £244m of PI costs were attributed to the WLA Area 2 market.³³ However, stakeholders have no visibility of how PI inputs are allocated to downstream markets.

4.72 We have previously said it is important that market schedules ensure the relationship between PI and downstream markets is clear to help show:

- a) the extent to which downstream markets are consuming PI;
- b) how this compares to external purchases; and
- c) that attributions of PI costs are transparent, helping stakeholders assess if they are fair and objective.³⁴

4.73 In relation to c), BT is currently required to publish a diagram showing how PI costs are allocated to downstream Openreach markets (see section 5), but we think the

³¹ For example, all network adjustments below the financial limit are capitalised in the PI market, while external network adjustments above the limit will be expensed in the PI market and internal network adjustments above the limit could be expensed or capitalised in downstream markets.

³² Page 28 of the 2023/24 RFS.

³³ See section 5.1 'performance summary by market' schedule in the 2023/24 RFS.

³⁴ Paragraph 3.6, Volume 6 of WFTMR21.

transparency of the allocation should be improved, in particular which PI inputs are allocated to each downstream Openreach market. In 2023/24, around 10% of downstream Openreach CCA operating costs related to the attribution from the PI market. We think this will help promote confidence in the PI market and help stakeholders understand how PI costs are allocated to downstream markets, which in turn creates the conditions for effective competition.

4.74 We therefore propose that BT publishes an appendix which provides a breakdown by Openreach SMP market of:

- the attribution of PI costs (as currently summarised in the performance summary by market schedule); and
- internal PI volumes (as currently reported in the PI market level schedule). The proposed format of the schedule is shown below, with illustrative totals taken from the 2023/24 RFS.

4.75 As noted above, some PI costs may be attributed to the rest of BT where this relates to the use of duct by core cables which are not provided by Openreach. BT should disclose these costs and provide an explanation in the market performance summary.

Table 4.1: Proposed PI appendix: breakdown of attribution of PI costs and internal volumes

Attribution of PI costs to downstream markets, £m

	WLA Area 2	WLA Area 3	etc	Total SMP	Openreach Non-SMP	Rest of BT	Total
Lead in duct							
Spine duct - 1 bore							
Spine duct - 2 bore							
Spine duct - 3+bore							
Facility hosting (per manhole entry)							
Facility hosting (per joint box entry)							
Poles - multi end-user attachment							
Poles - single end user attachment							
Pole top equipment							
Cable up a pole							
Total	244	133	x	445	214	19	680

Internal volumes

	WLA Area 2	WLA Area 3	etc	Total SMP	Openreach Non-SMP	Rest of BT	Total int volume
Lead in duct							9,334,757
Spine duct - 1 bore							770,367
Spine duct - 2 bore							360,018
Spine duct - 3+bore							581,368
Facility hosting (per manhole entry)							6,888,817
Facility hosting (per joint box entry)							55,402,773
Poles - multi end-user attachment							2,765,703
Poles - single end user attachment							20,303,457
Pole top equipment							2,513,940
Cable up a pole							1,201,364

Note: total PI costs and volumes are illustrative and taken from the 2023/24 RFS (Schedules 5.1 and 6.1.1). All SMP markets would be shown in the proposed appendix, but many have been omitted for brevity in this table.

4.76 We set out in Volume 7 the proposed schedules for the PI market. For each service a breakdown of operating costs and MCE will also need to be provided as set out above (see 'Breakdown of service level costs' section).

Wholesale local access

Summary of proposed remedies

- 4.77 We first summarise some of the other remedies proposed in the WLA Area 2 and WLA Area 3 markets as regulatory reporting information could be used to assess the impact and effectiveness of these, as well as monitor BT's compliance.
- 4.78 In Volume 4, Section 2 we propose a pricing continuity approach on WLA rental services. We propose an inflation indexed charge control is set on MPF and FTTC 80/20 rentals (or FTTP 80/20 rentals where a copper-based service is not available) . In Volume 4, Section 6, we also explain SOGEA 80/20 rentals would also be charge controlled. This proposal is a change from the current control on 40/10 rentals. The proposed controls in Area 3 are part of a forecast RAB approach. Other bandwidth rentals are subject to a requirement that charges are fair and reasonable.
- 4.79 In Volume 4, Section 5 we propose controls on WLA-specific ancillaries. These consist of service or basket controls of CPI-0% on around 25 WLA-specific ancillaries across Area 2 and Area 3, with some ancillary charges capped at £0. Our proposals include a CPI-0% cap on FTTP 80/20 connections in some circumstances.
- 4.80 We propose that all other WLA services are subject to a fair and reasonable charging condition.
- 4.81 In Volume 4, Section 6 we also propose a no undue discrimination obligation on BT in relation to services in the WLA markets.

Proposals

- 4.82 In each of WLA Area 2 and WLA Area 3³⁵ we propose that BT must publish revenue, volume, average price, and cost information for the following services, split between internal and external customers. Given our proposed pricing continuity approach, the only proposed changes from current requirements are to i) replace reporting of 40/10 rental services with 80/20 rental services ii) require BT to separately report FTTP connections and iii) remove the other ancillaries line and amend the other WLA services line.
- MPF SML1 rentals (charge controlled only)
 - MPF other rentals
 - FTTC 80/20 rentals (charge controlled only)³⁶
 - FTTC other rentals
 - FTTP 80/20 rentals (charge controlled, where applicable)
 - FTTP 80/20 rentals (non-charge controlled, where applicable)
 - FTTP other rentals

³⁵ As we propose to change the boundaries of geographic markets for this review period (e.g. WLA Area 2 will be larger and WLA Area 3 smaller compared to WFTMR21), market level information in the RFS from April 2026 will not be directly comparable to previous periods.

³⁶ FTTC includes G.fast.

- SOGEA 80/20 rentals (charge controlled)
 - SOGEA other rentals
 - FTTP 80/20 connections (charge controlled, where applicable)
 - FTTP 80/20 connections (non-charge controlled, where applicable)
 - FTTP other connections
 - WLA – specific ancillaries (CPI – 0%) – separately list each controlled ancillary where total revenue (i.e. the sum of internal and external revenue) exceeds £5m. Ancillaries capped at CPI-0% where total revenue is below £5m can be aggregated and reported together on a separate row.
 - WLA specific ancillaries (£0 cap) – aggregate of all zero capped ancillaries
 - Other WLA services (split between rental, connection and ancillary services where applicable i.e. this will capture any WLA services that BT is not required to separately report in the categories above).
- 4.83 We consider that requiring BT to publish information on these services is consistent with the proposed level that prices are regulated (e.g. individual controls on MPF and FTTC 80/20 rentals).
- 4.84 While FTTP 80/20 rentals and connections may not initially be subject to a charge control (except where FTTC is not available),³⁷ FTTP services are subject to no undue discrimination obligations and take up of FTTP, and the controlled 80/20 services in particular, is an important test of the impact of our SMP remedies in Area 2 and 3, including our charge controls. Further, separately reporting FTTP rentals and connections allows stakeholders to see the outcome of BT’s cost attributions between FTTP and FTTC across Areas 2 and 3.
- 4.85 We propose to require BT to publish information on all MPF and FTTC rentals (split between charge controlled MPF SML 1 and FTTC 80/20 rentals and other MPF and FTTC rentals) to enable a comparison of these services across Area 2 and Area 3 and allow stakeholders to assess the outcome of BT’s cost attributions between these products between areas.³⁸
- 4.86 Given the large number of charge controlled WLA ancillaries we consider it would be proportionate, consistent with current requirements, to only require BT to disclose those capped at CPI-0% where total revenue exceeds £5m.³⁹ All other ancillaries capped at CPI-0% should be aggregated and reported on a separate row.
- 4.87 We propose to remove the requirement to publish an ‘other ancillaries’ line as all charge controlled ancillaries will be reported under the CPI-0% or zero capped ancillaries rows.⁴⁰

³⁷ We note that the 2023/24 RFS reports charge controlled FTTP 40/10 services in both Area 2 and Area 3, suggesting there are likely to be charge controlled FTTP 80/20 services from the start of the next control.

³⁸ The ‘charge controlled’ qualification is required since, once ultrafast rollout is complete and a minimum of two years after the stop sell (triggered by ultrafast coverage exceeded 75% in an exchange area) proposed controls on MPF and FTTC 80/20 rentals will be removed. This means that when ultrafast coverage in an exchange is complete, Openreach will have pricing freedom on copper services where FTTP is available (and hence it could be selling non-charge controlled MPF or FTTC in some exchange areas).

³⁹ For example, based on the 2023/24 RFS we would expect this to include items like MPF New Provides, NGA Visit Assure and WLA Time Related Charges.

⁴⁰ Or, where applicable, under FTTP 80/20 connections.

Instead, under the 'other WLA services' line BT should separately include aggregate figures for rental, connection and ancillary services it is not required to separately report (we would expect these to be non-charge controlled WLA services which BT is not required to disclose under one of the other headings).

- 4.88 We consider that publishing information on the above services in WLA Area 2 and Area 3 promotes confidence in the market, which in turn creates the conditions for effective competition. For example, publication will provide assurance to stakeholders that BT is complying with its obligations and demonstrate the impact and effectiveness of the remedies proposed. In particular, we consider that:
- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices).
 - Publishing internal and external prices allows stakeholders to see how these compare to price caps, where these apply, and enables effective monitoring for enforcement purposes.
 - Publishing cost and returns information will help stakeholders assess the impact of the proposed remedies on the performance of WLA services⁴¹ and, in some cases, assess their effectiveness (e.g. by comparing trends in costs against charges set by reference to BT's costs). Publication of this information will also help stakeholders understand how service information relates to market level information. Since we propose to require BT to publish the same service level cost information in each of the WLA markets, it would help stakeholders understand the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with WLA services between geographic markets).
 - Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers and indicates how take up of these services is developing. This helps stakeholders assess the impact of the remedies proposed.
- 4.89 We set out in Volume 7 the proposed service level information for WLA markets to be published in the RFS from 2026/27. For each service a breakdown of operating costs and MCE will also need to be provided as set out above (see 'Breakdown of service level costs' section).

FTTP rollout in WLA Area 3

- 4.90 In WFTMR21, we required BT to publish a note for WLA Area 3 summarising the number of non-subsidised homes passed with FTTP as we said this would help us and stakeholders assess how FTTP rollout is developing against the rollout commitment BT made in Area 3.⁴²
- 4.91 One of the objectives of our remedies in Area 3 is to promote investment in gigabit-capable networks by BT, and the proposed RAB approach is intended to support BT's FTTP build in Area 3. Given this, we propose to retain this requirement on BT to publish a note on homes passed with FTTP to allow us and stakeholders to assess how FTTP rollout develops in Area

⁴¹ Including our estimate of Openreach's cost recovery for MPF and FTTC products in WLA Area 2 set out in Annex 13.

⁴² Paragraphs 3.183 to 3.186, Volume 6, WFTMR Statement.

3. As we propose that Area 3 will be smaller compared to WFTMR21, the homes passed information will not be directly comparable to that currently published by BT.

Leased lines access and interexchange connectivity

Summary of other proposed remedies

4.92 We first summarise some of the other remedies proposed in the LLA and IEC markets as regulatory reporting information could be used to assess the impact and effectiveness of these, as well as monitor BT's compliance.

4.93 Our main price regulation proposals in these markets are as follows:

Table 4.2: Summary of main charge control proposals in LLA and IEC markets

Market	Dark fibre	Active leased lines		Optical services
LLA Area 2	Not available	CPI-0% basket control, sub cap of CPI-0% on each main link charge		CPI-0% on all individual services including main link
LLA Area 3	Cost based charge controls on dark fibre rentals, connections and ancillaries	<u>Low bandwidth</u> CPI-X% basket control, sub cap of CPI-0% on each main link charge	<u>High bandwidth</u> CPI-00. % basket control, sub cap of CPI-0% on each main link charge	
IEC BT only	Cost based charge controls on dark fibre rentals, connections and ancillaries	CPI-0% basket control, sub cap of CPI-0% on each main link charge		
IEC BT+1	Cost based charge controls on dark fibre rentals, connections and ancillaries	CPI-0% basket control, sub cap of CPI-0% on each main link charge		
HNR Area	Not available	Fair and reasonable charging		

4.94 We also propose the following controls:⁴³

- **Excess Construction Charges (ECCs):**
 - a) Direct ECC basket is subject to a CPI-0% cap, and a sub-cap of CPI+5% on individual charges across Leased Lines Access Area 2, Leased Lines Access Area 3, IEC BT only and IEC BT+1 markets.

⁴³ Volume 4, Section 5.

b) Contractor ECCs are subject to a basis of charges obligation;

- **Ethernet Time Related Charges (TRCs):** cap of CPI-0% on each Ethernet TRC across the LLA Area 2, LLA Area 3, IEC BT only and IEC BT+1 markets;
- **Other ancillaries:** cap of CPI-0% for each charge across LLA Area 2, LLA Area 3, IEC BT only and IEC BT+1 markets.

4.95 We have also proposed to impose a no undue discrimination obligation on BT in relation to services in each of these markets.

Proposed LLA Access and IEC services to be reported

4.96 As the controls on different services are similar across LLA Access and IEC markets, we consider below the services to be reported in the RFS for each category of controlled service.

4.97 The format of the market level schedules for each LLA and IEC market can be found in Volume 7 (other than some proposed changes to the list of services to be published in each market, the format of the schedules is consistent with current requirements).

4.98 Where we require service level cost information to be published, for each service a breakdown of operating costs and MCE will also need to be provided as per our proposals above.

Dark fibre

4.99 Consistent with current requirements we propose that BT must publish revenue, volume, average price, cost and ROCE information for the following services, split between internal and external customers:

- Connections, split by single and dual fibre
- Rentals, split by single and dual fibre
- Main link
- Patch panels – customer premises
- Patch panels – exchanges
- Initial testing
- Cessation charges
- Right when tested charges

4.100 This information would be published in each of service level schedules for the LLA Area 3, IEC BT Only and IEC BT +1 markets where we are proposing that BT would be required to provide dark fibre services.

4.101 As main link could be required as part of an access circuit or an interexchange circuit, we propose to continue to require BT to describe how it has determined where to report main link in the RFS. ⁴⁴

⁴⁴ In the 2023/24 RFS BT included a note under the performance summary by market schedule on main link.

4.102 We consider that publishing information on each of these dark fibre services is consistent with the level of the regulation as each of these services is subject to a charge control. We consider publishing this information is justified because:

- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (i.e. by showing differences between internal and external prices) and allows stakeholders to see how these compare to individual service price caps.
- Publishing revenue, cost and ROCE information will help stakeholders assess the effectiveness of the cost-based charge controls on dark fibre services.
- Since we propose to publish cost information on dark fibre in each of the LLA Area 3, IEC BT only and IEC BT+1 markets, it would help stakeholders assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations when allocating costs of dark fibre between geographic markets).
- Publishing internal and external revenues and volumes provides transparency about trends and relative usage of dark fibre services by BT and external telecoms providers and indicates how take up of these services is developing (e.g. dark fibre vs active services). This helps stakeholders assess the effectiveness of remedies.

Active leased lines

4.103 In the LLA Area 2, LLA Area 3, IEC BT only and IEC BT+1 markets we propose that BT must publish revenue, volume, average price, cost and ROCE information for the following services, split between internal and external customers. In the HNR area we propose that BT only needs to publish revenue, volume and average price information for these services given we do not propose to impose charge controls.

- Low bandwidth services
 - Connections
 - EAD rentals
 - EAD LA rentals
 - Other rentals
 - Main link
 - Other services (if applicable)
- High bandwidth services
 - Connections
 - EAD 10 Gbit/s rentals
 - Other EAD rentals
 - EAD LA 10 Gbit/s rentals
 - Other EAD LA rentals
 - Other rentals
 - Main link
 - Other services (if applicable)

4.104 We propose that separate information should be published for low bandwidth services (up to 1 Gbits/s) and high bandwidth services (greater than 1 Gbits/s). This represents a change to how these services are currently reported in RFS but is consistent with the level of the

proposed regulation in LLA Area 3 (where we are proposing separate low and high bandwidth baskets). While our proposed charge controls do not distinguish between low and high bandwidths in other LLA and IEC markets, we propose to require BT to publish information on the same set of services in these markets to enable stakeholders to make comparisons across markets and see the effects of BT's cost attribution decisions in relation to these services. We propose that the market schedules show total rows to align with the basket controls (i.e. a low and high bandwidth basket total for LLA Area 3, and a single total basket row for LLA Area 2 and IEC markets).

- 4.105 Consistent with current requirements, we propose to require BT to report EAD, EAD LA, main link and other rentals separately to help provide assurance to stakeholders that they are not subject to undue discrimination.
- 4.106 For high bandwidth services, we propose that EAD 10 Gbit/s and EAD 10 Gbit/s LA rentals are separately reported. This represents a change in how these services are currently reported in the RFS but is consistent with our proposal that the EAD and EAD LA 10 Gbit/s variants are used as reference services for our dark fibre rental prices and reporting information on these services could help stakeholders assess the effectiveness of those controls.
- 4.107 As main link could be required as part of an access circuit or an interexchange circuit, we propose to continue to require BT to describe how it has determined where to report main link in the RFS.
- 4.108 We consider that publishing information on these Ethernet services will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies imposed, in particular:
- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices) and allows stakeholders to see how these compare to basket and individual service controls.
 - Revenue is used to weight price changes in Ethernet services baskets so publishing this information helps show that the information used by BT to demonstrate compliance is reliable.
 - Publishing revenue, cost and ROCE information will help stakeholders assess the impact of the remedies imposed on the performance of Ethernet services.
 - Publishing cost information for the same services in each of the LLA and IEC markets will help stakeholders assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with Ethernet services between geographic markets).
 - Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers and indicates how take up of these services is developing (e.g. dark fibre vs active services). This helps us and stakeholders assess the effectiveness of the remedies imposed.

Optical services

4.109 Given the large number of optical services subject to our proposed control, we consider it is proportionate to require BT only to disclose information on rental, connection and main link services, consistent with current requirements. We therefore propose that BT must publish revenue, volume, average price, cost and ROCE information for the following services, split between internal and external customers, across the LLA Area 2, LLA Area 3, IEC BT Only and IEC BT+1 markets. In the HNR area we propose that BT only needs to publish revenue, volume and average price information for these services given we do not propose to impose charge controls.

- Connections
- Rentals
- Main link

4.110 We consider that publishing information on these optical services is consistent with the level of the regulation (i.e. a control on rental, connection and main link optical charges).

4.111 We consider that publishing information on optical services will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies imposed, in particular:

- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices) and allows stakeholders to see how these compare to the price cap.
- Publishing revenue, cost and ROCE information will help stakeholders assess the impact of the remedies on the performance of these services.
- Publishing cost information for the same services in each of the LLA and IEC markets will help stakeholders assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with optical services between geographic markets).
- Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers and indicates how take up of these services is developing. This helps stakeholders assess the effectiveness of the remedies imposed.

Other services

4.112 In the LLA Area 2, LLA Area 3, IEC BT only and IEC BT+1 markets we propose that BT must publish revenue, volume, average price, cost and ROCE information for the following services, split between internal and external customers.⁴⁵ In the HNR area we propose that BT only needs to publish revenue, volume and average price information for these services given we do not propose to impose charge controls.

- Direct ECCs basket
- Contractor ECCs
- Time related charges
- Other ancillaries - separately list each controlled ancillary where total revenue exceeds £5m. Ancillary services where total revenue is less than £5m can be aggregated and reported together.

4.113 We consider that publishing information on these services is consistent with the level of the proposed regulation (i.e. each charge controlled basket or service or where we propose a basis of charges obligations).⁴⁶ Consistent with our approach in WLA markets, we consider that it is proportionate to only require BT to disclose individual ancillaries where total revenue across the LLA and IEC markets exceeds £5m.

4.114 We consider that publishing information on these groups of services will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies imposed, in particular:

- Publishing internal and external prices for some services helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices) and allows stakeholders to see how these compare to price caps.
- Revenue is used to weight price changes in the Direct ECC basket so publishing this information helps show that the information used by BT to demonstrate compliance is reliable.
- Publishing revenue, cost and ROCE information will help stakeholders assess the impact of the remedies imposed on the performance of these services.
- Publishing cost information for contractor ECCs will help stakeholders assess if BT is recovering its costs under the basis of charges obligation.
- Publishing cost information for the same services in each of the LLA and IEC markets will allow stakeholders to assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with optical services between geographic markets).
- Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers. This helps stakeholders assess the effectiveness of the remedies imposed.

⁴⁵ Average price and volume information may not be available where services with different volume measures are combined into a single reporting line.

⁴⁶ While BT is not currently required to separately report contractor ECCs, we think it is appropriate to report this separately given our proposal to apply a basis of charging obligation to these services.

Cross-market ancillaries

- 4.115 In Volume 4, Section 5 we set out the following proposed controls on cross market ancillaries (i.e. ancillaries that are used in multiple SMP markets):
- Cablelink basket: CPI-0% for the basket.
 - Accommodation services (Co-location for PI, MPF, VULA, LLA and IEC): CPI-0% on each charge.
 - Accommodation comingling basket: CPI-0% for the basket.
 - Electricity charge: basis of charges obligation.
- 4.116 To align services reported in the RFS with the level that they are regulated, we propose that BT must publish revenue, volume, average price and cost information for the following cross market ancillaries, split between internal and external customers:
- Cablelink.⁴⁷
 - Co-mingling basket.
 - Accommodation services: BT should separately report each accommodation service where total revenue exceeds £5m. Accommodation services with revenue below £5m can be aggregated and reported together.
 - Electricity charge.
- 4.117 We consider that this information will help stakeholders assess the impact and effectiveness of the remedies proposed in Volume 4. In particular, it will show how average prices compare to the price cap and allow a comparison of revenues to costs where BT is subject to a basis of charges obligation. Publishing internal and external information will also help assess the relative usage of these ancillaries, how important they are in supporting network access and demonstrate compliance with no undue discrimination obligations where these apply.
- 4.118 We set out in Volume 7 the format of the proposed market level schedule for cross market ancillaries, which is consistent with the format of the current schedule published in the RFS.
- 4.119 The proposed schedules for each proposed SMP market are included in the ‘form and content’ direction in Volume 7.

Consultation question

Question 6.2: Do you agree with our proposals in relation to the published performance schedules set out in Section 4? Please set out your reasons and supporting evidence for your response.

⁴⁷ Excluding GEA Cablelink.

5. Preparation and assurance requirements

Background

- 5.1 We require BT to disclose how it has prepared the RFS to help assess whether its regulatory accounting systems attribute costs, revenues, assets and liabilities to services in a fair, objective and transparent manner. We consider that requiring BT to publish information on the basis of preparation contributes to an effective regulatory regime because it allows Ofcom to benefit from stakeholders' insights in considering compliance, assessing the effectiveness of remedies and considering whether any adjustments may be needed to the basis of preparation to ensure BT's RFS are reliable.
- 5.2 Sometimes we direct BT to prepare the RFS in a particular way, e.g. the use of specific attribution rules to be consistent with how we have taken regulatory decisions. Some of these directions affect all markets while some are market specific.⁴⁸
- 5.3 Assurance requirements include requiring BT to reconcile its RFS to annual report and to obtain an audit opinion on whether the RFS have been prepared following the documentation published by BT and relevant directions issued by Ofcom.
- 5.4 In the rest of this section we set out proposals as follows:
- Publication requirements relating to preparation of the RFS.
 - Basis of preparation – directions applicable to all markets.
 - Basis of preparation – directions applicable to specific markets.
 - Assurance.

Publication requirements relating to preparation of the RFS

- 5.5 We currently require BT to publish the following documents describing the preparation of the RFS:
- **Wholesale Catalogue.** This describes the services reported in the RFS.
 - **Accounting Methodology Document (AMD).** This describes the attribution methods and policies BT has applied in its cost attribution system.

⁴⁸ We have the power to impose consistency directions on BT under the SMP condition. BT is required to comply with the consistency direction while it is in force. Otherwise, BT is able to make changes to its attribution methods or policies, subject to compliance with the regulatory accounting principles, but must put those changes through the annual change control process. BT cannot propose a change that conflicts with a consistency direction.

- **Change control notification (CCN).** This sets out the methodology changes BT intends to make to the RFS, including the estimated impact of these changes based on prior year figures.
- **Reconciliation report.** This is published alongside the RFS and sets out the changes actually made, the impact of those changes and any material errors also corrected.
- **Cost allocation diagrams.** These diagrams illustrate how operating costs and assets flow through the different layers in BT's cost allocation system.
- **Cost component list.** This is a list of the cost components used in BT's cost accounting system.

5.6 We propose that BT continues to publish these documents.

5.7 We also propose to amend the materiality requirements in relation to the change control notification and the reconciliation report, as explained below. These proposed changes can be found in Condition 11 and the Change Control and Reconciliation Report direction in Volume 7.

5.8 We consider our proposals relating to these requirements below.

Wholesale Catalogue

5.9 The Wholesale Catalogue⁴⁹ describes each service published in the RFS, arranged by the SMP market the service relates to. It also includes a mapping of services published in the RFS (and their service codes) to the services used in BT's regulatory accounting system and to the published price list services.

5.10 We propose that BT should continue to publish the Wholesale Catalogue as it aids stakeholders' understanding of the RFS by providing descriptions of each service published in the RFS. We also consider that the mapping between services in the RFS and services in published price lists helps stakeholders understand where the regulated services they buy are reported in the RFS.

5.11 The proposed requirement to produce the Wholesale catalogue is in the SMP condition in Volume 7.

AMD

5.12 The AMD should describe the attribution methods and policies BT has applied in its cost attribution system.

5.13 Where Ofcom imposes an obligation relating to rules about the use of cost attribution systems, it is required also to impose an obligation to provide a description of the cost attribution system.⁵⁰ We consider that requiring BT to publish the AMD contributes to an effective regulatory regime because it allows us to benefit from stakeholders' insights in considering compliance, assessing the effectiveness of remedies and considering whether any adjustments may be needed to the basis of preparation to ensure BT's RFS are reliable. It is also one of the main documents used to audit the RFS. We therefore propose to require

⁴⁹ The wholesale catalogue can be found on BT's website here:

<https://www.btplc.com/Thegroup/Policyandregulation/Governance/Financialstatements/index.htm>

⁵⁰ Section 87(11) Communications Act 2003.

BT to continue publishing an AMD describing the attribution methods and policies it has applied in its cost attribution system.

- 5.14 The draft SMP condition states that the AMD should set out in detail how BT has prepared the RFS. To assist BT, we have identified some areas where the AMD could be improved, particularly in relation to explaining how volumes and revenues in the RFS are estimated.
- 5.15 For example, in relation to volumes, we think the AMD would benefit from explanations of how volumes are assigned between different geographic markets, how rental and connection volumes are calculated (e.g. do volumes represent an average for the year or a point in time estimate), how main link volumes are calculated (e.g. using route or radial distance), and how disconnection volumes are treated in the RFS.
- 5.16 In relation to revenues, we think the AMD could include explanations of how discounts are treated in the RFS, how revenues and prices are calculated in the RFS and if there are any services where a different approach is taken.
- 5.17 We have discussed these points with BT as part of our regular engagement and we expect BT's 2024/25 AMD to include additional detail on how volumes and revenues in the RFS are estimated.
- 5.18 The proposed requirement to produce the AMD is in the SMP condition in Volume 7.

CCN and reconciliation report

- 5.19 The annual CCN report currently sets out all the methodology changes, including changes associated with Ofcom directions,⁵¹ that BT intends to make to the RFS, including the estimated impact of these changes at a market level based on prior year figures. Currently there is no materiality threshold for methodology changes included in the CCN. The CCN is published in March each year. Publication of the CCN allows stakeholders to raise any concerns with Ofcom. We can direct BT (after consultation) not to apply a methodology change where we disagree with its proposals.
- 5.20 The reconciliation report is published alongside the RFS and sets out the methodology changes that were actually made and the impact of those changes at a market level on the current year figures, together with the impact of any material errors that have been corrected.⁵² The reconciliation report is currently audited. The reconciliation report requires disclosure of all "material errors" and "material changes", which are currently defined as those affecting any figure in the RFS by the higher of £1m or 5%. An explanation of non-material changes is provided but the estimated impact is aggregated into a single figure.
- 5.21 We propose to require BT to continue publishing a CCN and reconciliation report to provide transparency on how BT has prepared the RFS, the methodology changes included in the RFS, and the impact of these. However, we seek views on whether it remains necessary to require BT to publish in the reconciliation report the impact of individual methodology changes in the current year, given that their impact on prior year figures has already been reported in the CCN. We understand that BT needs to effectively re-run production of the RFS to estimate each individual impact. Even if our proposed change to the materiality threshold is adopted (see below), BT could still make many methodology

⁵¹ For example, BT is required to put any changes to its cost component list through the CCN.

⁵² The impacts of material errors are calculated based on prior year figures only.

changes each year, especially when it may have to consider changes to reflect the transition from copper to fibre in future. We want to ensure the requirement on BT to estimate and publish the impact of each methodology change on the current year as part of the reconciliation report remains proportionate.

- 5.22 Alternative options include requiring BT to report the aggregate impact of methodology changes in the current year or removing this requirement altogether from the Reconciliation Report. We consider it would be appropriate for the Reconciliation Report to include the impacts of material errors and material changes not included in the CCN, as set out below.
- 5.23 We have also considered whether to introduce a materiality threshold for the CCN and whether to change the materiality threshold for the Reconciliation Report. We set out our proposals on materiality below.
- 5.24 The proposed requirements to produce the CCN and Reconciliation Report are in the SMP condition and further requirements on the preparation and audit of the Reconciliation Report are in the proposed Reconciliation Report Direction in Volume 7.

Materiality threshold for the CCN

- 5.25 In WFTMR21, we decided not to introduce a materiality threshold for the CCN.⁵³
- 5.26 Since WFTMR21, we have observed that some methodology changes published in the CCN have a limited impact, if any, on market level figures presented in the RFS. This is because some of BT's proposed changes are presentational (e.g. adding or moving a row in a published schedule), aim to simplify its cost allocation system (e.g. by removing redundant elements), propose alternative data sources due to internal systems changes, or predominantly impact non-SMP markets.
- 5.27 We do not consider it is proportionate to require BT to publish these types of changes and think the CCN would be more accessible and useful to stakeholders if it focused on methodology changes proposed by BT which had a material impact on the financial information presented for SMP markets.
- 5.28 We therefore propose to introduce a materiality threshold for the CCN, meaning BT would only need to publish in its CCN a list of material methodology changes. We propose to define a material change as one that, based on the previous year's RFS, would result in a change (whether positive or negative) in any figure in the following schedules which exceeds the higher of 5% or £5m. The proposed changes are reflected in Condition 11⁵⁴ and the Change Control and Reconciliation Report direction in Volume 7.
- Performance summary by market.
 - Market level summary schedule for any SMP market (i.e. the summary schedules showing service level revenue, cost and MCE for each market).
- 5.29 Although the impacts are presented in the CCN at a market level, we think it is important that the materiality definition captures service level information as changes can be significant at a service level even if they appear small at a market level.

⁵³ See paragraphs 4.47 to 4.52 of Volume 6 of the WFTMR21.

⁵⁴ Conditions 11.27 to 11.29.

- 5.30 As the RFS currently contains over 50,000 figures, we do not consider it would be proportionate to require BT to assess the materiality of a change against any figure presented in the RFS. We think limiting the materiality assessment to any figure in the schedules listed above and setting the threshold at the higher of 5% and £5m, will be sufficient to ensure only significant methodology changes are presented in the CCN, while remaining feasible and proportionate for BT to implement.
- 5.31 Under our proposal, BT would still need to disclose in the CCN any changes associated with Ofcom directions (regardless of whether they meet the materiality threshold).⁵⁵ We also propose that BT includes in its CCN any methodology changes where the impact on the prior year figures cannot be estimated as such changes could be significant. BT could also disclose non-material changes if it wanted, e.g. where the impact of a change was marginal in relation to the materiality threshold, or where BT considered the change could be of particular interest to users of the RFS, however it would not be required to do so.

Materiality threshold for the reconciliation report

- 5.32 We consider it is appropriate to amend the materiality threshold for the reconciliation report, so it is consistent with our proposal for the CCN (i.e. the higher of 5% or £5m for any figure presented in certain schedules). We recognise that resource is needed to estimate and audit the impacts presented in the Reconciliation Report and think this change will ensure the requirements on BT remain proportionate while allowing stakeholders to understand the impact of any significant changes being made to the RFS.
- 5.33 In relation to methodology changes, we think it is appropriate for the Reconciliation Report to include the impact on current year figures of:
- i. methodology changes published in the CCN,⁵⁶ and
 - ii. any methodology changes not published in the CCN that have a material impact on current year figures.⁵⁷
- 5.34 Under i), we explained above that we are seeking stakeholder views on whether to continue to require BT to publish the current year impact of every methodology change published in the CCN. As per current requirements, we propose the Reconciliation Report should also present the aggregated impact on current year figures of all other non-material methodology changes.
- 5.35 We propose that the threshold for reporting material errors in the reconciliation report is also changed to be consistent with the proposed definition for the CCN (i.e. the higher of 5% or £5m for any figure presented in certain schedules). We propose that the impact of material errors continues to be estimated by reference to the prior year. This proposed change can be found in Condition 11 and the Change Control and Reconciliation Report direction in Volume 7.

⁵⁵ For example, any changes to the cost component list should continue to be included in the CCN.

⁵⁶ Regardless of the reason why it was published in the CCN (e.g. it was above the proposed materiality threshold, was associated with an Ofcom direction, or BT decided to publish a non-material change).

⁵⁷ For example, a methodology change may not have been published in the CCN because it did not have a material impact on prior year figures. However, if the change had a material impact on current year figures, it must be published in the reconciliation report. The reconciliation report may also include changes made because of recommendations from the audit review, which would typically always come after the publication of the CCN.

Cost allocation diagrams

- 5.36 We propose to continue to require BT to publish diagrams for each operating cost and asset category published in the market performance schedules in the RFS.⁵⁸
- 5.37 We consider that these diagrams will make it easier to understand which attribution rules are most important when allocating costs to services and help ensure BT does not unfairly load costs onto SMP markets. In turn, we think this will increase the reliability of the RFS and improve confidence in the regulatory regime.
- 5.38 Consistent with current requirements, we propose that the diagrams must show the following:
- the key allocation stages, including as a minimum the following allocation stages: i) initial cost associated with the cost category; ii) activity group (where relevant) and/or plant group; iii) component; and iv) SMP and non-SMP markets (with each SMP market being identified);
 - the main cost pools at each allocation stage, to include either the five largest cost pools, or any cost pool representing 20% or more of the total cost associated with the relevant operating cost or MCE category at that stage. Other cost pools can be aggregated together into 'other' cost pool to make the diagrams easier to read and interpret;
 - the cost drivers associated with each identified cost pool at each stage,
 - the percentage allocation using those cost drivers at each stage; and
 - the percentage of cost allocated to each Openreach SMP market, Openreach residual and rest of BT.
- 5.39 We also propose that BT continues to publish a narrative to help stakeholders understand the diagrams and explain where information on each cost driver can be found in the AMD. Any assumptions made must also be published.
- 5.40 We have included the proposed requirements in the 'form and content' Direction in Volume 7.

Cost component list

- 5.41 Network cost components are intended to represent the building blocks of regulated services and generally represent discrete parts of the network. In BT's RFS, costs are attributed through various cost pools to cost components. These cost components are then attributed to regulated services by reference to volumes and usage factors.
- 5.42 The cost accounting obligation requires BT to describe how it has attributed costs to regulated markets. As cost components are fundamental building blocks of BT's cost accounting system, we consider it is important that stakeholders, including Ofcom, understand which components BT is using to attribute costs and what those components represent. Further, while cost components are no longer published in the RFS, they remain important for our cost modelling and in section 6 we propose to require BT to provide us with detailed information on costs associated with each cost component on an annual basis.

⁵⁸ The attribution diagrams published by BT for 2023/24 can be found here: [Appendix three: attribution diagrams](#).

- 5.43 We therefore propose to continue to require BT to publish an annual list of cost components used in its cost accounting system. The cost component list must include a list of components used to prepare the RFS, a description of each component and diagrams showing which part of the network, or which activity, each component represents.⁵⁹ Consistent with current requirements, we propose that BT can introduce or remove cost components by including details of its proposal in the CCN.
- 5.44 This approach will continue to give BT flexibility to change components while ensuring they remain visible to stakeholders. We propose to remove the network components direction imposed in WFTMR21 as this only set out the initial list of components that BT needed to include in its list as of 1 April 2021. We will retain the ability to direct BT to use specific components where we consider the components used by BT are inappropriate, e.g. because they do not reflect discrete parts of the network, are obsolete or risk attributing costs to regulated markets that are not associated with those markets.
- 5.45 The draft SMP condition in volume 7 reflects our proposals.

Basis of preparation – directions applicable to all markets

- 5.46 In previous market reviews, we have directed BT to prepare the RFS following a set of regulatory accounting principles and, in some circumstances, on a specific basis so that BT's reporting was, as far as possible, consistent with our regulatory decisions. This allowed us to assess the impact and effectiveness of our remedies and provided assurance to stakeholders that information was being created and retained such that appropriate regulation could continue to be maintained in future.
- 5.47 In the WFTMR21, we imposed the following directions on BT in relation to the basis of preparation. We propose to retain each of these directions unchanged as explained below.
- Regulatory Accounting Principles Direction.
 - The Consistency Direction, in respect of;
 - Geographic markets;
 - Externally funded network build; and
 - SLGs.
- 5.48 We propose changes to the Consistency Direction on BT in relation to:
- Asset valuation;
 - Services included in BT's regulatory accounting system;
 - Exchange closures; and
 - The copper recovery programme.

We explain these further below.

⁵⁹ The current list and component diagrams are set out in [Annex 2 of the 2023/24 AMD](#).

WFTMR directions we propose to retain unchanged

Regulatory Accounting Principles

5.49 The Regulatory Accounting Principles (RAPs) represent the fundamental principles with which BT's regulatory financial reporting must comply. In order of priority, the current RAPs are:⁶⁰

- a) **Consistency with regulatory decisions:** Regulatory Financial Reporting must be consistent with Ofcom's regulatory decisions as directed by Ofcom.
- b) **Completeness:** Regulatory Financial Reporting must encompass all revenues, costs, assets and liabilities of the markets, together with residual activities (including wholesale and retail).
- c) **Accuracy:** Regulatory Financial Reporting must maintain an adequate degree of accuracy, such that the information included in the RFS is free from material errors and double-counting (the definition of materiality is set out in the direction).
- d) **Objectivity:** Each element of Regulatory Financial Reporting, so far as is possible, must take account of all the available financial and operational data that is relevant to that element. Where an element of Regulatory Financial Reporting is based on assumptions, those assumptions must be justified and supported by all available relevant empirical data. The assumptions must not be formulated in a manner which unfairly benefits BT or any other operator or entity or creates undue bias towards any part of BT's or any other operator's business or product. The dominant Provider must take account of the way in which services are charged when considering how to attribute costs. In particular, where costs are recovered from upfront revenues, they must not be capitalised and attributed to rental services. Where revenue is allocated to residual, associated costs must not be included in SMP markets.
- e) **Causality:** Regulatory Financial Reporting must ensure that:
 - i) revenues (including revenues resulting from transfer charges);
 - ii) costs (including costs resulting from transfer charges);
 - iii) assets; and
 - iv) liabilitiesare attributed in accordance with the activities which cause the revenues to be earned, or costs to be incurred, or assets to be acquired, or liabilities to be incurred, respectively. Costs attributed to Markets must be relevant to and required by the services provided in those Markets.
- f) **Compliance with statutory accounting standards:** Regulatory Financial Reporting must comply with the accounting standards applied in BT's statutory accounts, with the exception of any departures as Ofcom may direct from time to time.
- g) **Consistency of the Regulatory Financial Statements as a whole and from one period to another:** Regulatory Financial Reporting must be applied consistently in all the Regulatory Financial Statements relating to the same period. Regulatory Financial Reporting must be applied consistently from one period to another. All the changes in Regulatory Financial Reporting from one period to another must be justified by reference to the RAPs. If there are material changes in Regulatory Financial Reporting

⁶⁰ In WFTMR21, we amended the order of priority so that consistency with regulatory decisions was the highest priority.

from one period to another, BT must restate the previous period's Regulatory Financial Statements, applying the changes to the Regulatory Financial Statements for that period.

5.50 We propose to continue to require BT to prepare its RFS in accordance with the RAPs to ensure an absence of bias, and consistency with regulatory decisions.

5.51 We propose to give the RAPs Direction in Volume 7.

Geographic markets

5.52 BT is currently required to prepare costs in geographic SMP markets on a national unit cost basis.

5.53 In Annex 13, we explain that our cost modelling has been done by reference to national unit costs. Although costs could vary by geography (e.g. between Area 2 and Area 3) we propose to require BT to continue to prepare costs in geographic SMP markets on a national unit cost basis. By national unit costs, we mean a unit cost per service that does not take account of any differences in circuit lengths – total costs in a geographic market would then be estimated by multiplying the national unit cost per service by the volume of services in the geographic market.

5.54 We consider that this will allow us to monitor BT's performance in geographic SMP markets on a basis consistent with how we propose to set prices.

5.55 Our proposed text is in the Consistency Direction in Volume 7 which requires BT to prepare costs in geographic markets by reference to national unit costs.

Externally funded network build

5.56 Parts of BT's network are funded by external entities such as BDUK,⁶¹ network adjustments in the PI market⁶² and excess construction charges.⁶³

5.57 While externally funded assets can be attributed to relevant SMP markets, for the purposes of setting prices we also take account of the associated funding when assessing the cost base of regulated prices. It is important that these assets can be identified alongside the funds obtained for them so we can take steps when setting prices to ensure BT does not over recover the costs associated with them.

5.58 Consistent with current requirements, we therefore propose to require BT to separately identify externally funded assets and associated funding in its regulatory accounting system.

5.59 We have included text in the Consistency Direction in Volume 7 to capture this proposal and allow us to monitor how BT accounts for and reports externally funded network build (the wording of the proposed direction is unchanged from WFTMR21).

⁶¹ Building Digital UK – a DCMS scheme where Openreach was provided with 'gap' funding to deploy broadband (mainly FTTC) in areas that were not commercially viable.

⁶² Where telecoms providers are required to pay for certain activities to enable the deployment of FTTP utilising BT's duct. Telecoms providers are required to pay where the cost of network adjustments exceeds £4,750 per km of spine duct.

⁶³ Where telecoms providers request an EAD or EAD LA connection and the construction work in providing that connection is above £2,800, they are required to pay the additional amount.

SLGs

- 5.60 In our cost modelling, we treat SLG payments as operating costs (see Annex 13). In the March 2019 RFR Statement we noted that the introduction of the IFRS15 accounting standard (dealing with recognising revenue from contracts with customers) would mean that SLG payments would be recognised as a reduction to revenue rather than an operating cost in financial statements.⁶⁴ In that document we decided that SLG payments should appear as operating costs for individual services in the RFS.
- 5.61 We consider it is important that SLG payments are visible in the RFS and that it makes sense to continue to report them under operating costs for comparability with our modelling approach. This is also consistent with the existing RFS treatment.
- 5.62 We recognise that categorising SLG payments as an operating cost differs from the treatment under IFRS15. To ensure that overall revenue recognition in the RFS is consistent with statutory financial statements, BT currently includes reconciling line items for IFRS15 in the summary schedules for each market.
- 5.63 For consistency with our proposed approach to cost modelling, and reflecting the current treatment in the RFS, we propose to require BT to present SLG payments as operating costs in the RFS. We also propose that, in line with current practice, BT can include reconciling items relating to IFRS15 in the RFS where required.
- 5.64 We have included text in the proposed Consistency Direction in Volume 7 which requires BT to present SLG payments as operating costs in the RFS. We have also included text in the Form and Content Direction saying that BT can include reconciling items for IFRS15 in each market summary where required, as per current practice.

New consistency directions

- 5.65 As noted above, we propose changes to the Consistency Direction on BT in relation to asset valuation and new directions relating to services included in BT's regulatory accounting system, exchange closure and the copper recovery programme. We set out our proposals below.

Asset Valuation

- 5.66 The RFS are prepared on a CCA basis. This means assets are valued using an estimate of their current replacement cost rather than historic cost. The RFS have been prepared on a CCA basis since 1997, when Ofcom's predecessor Oftel changed the way BT accounted for assets in the RFS. The main reason the RFS are prepared on a CCA basis is that it allows regulated prices set using information from the RFS to reflect the cost of replacing relevant assets, which gives better signals for efficient investment and entry than using historical costs.
- 5.67 Currently, where BT values an asset on a CCA basis, this is generally done by applying an inflation index to its historical cost. We currently direct BT how to value the following assets (which represented almost 95% of SMP market assets in 2023/24):
- The valuation of duct must incorporate a regulatory asset value (RAV) adjustment. The RAV adjustment refers to the value placed on duct used for access cables installed prior to 1 August 1997. These assets are currently indexed using RPI based on the historical

⁶⁴ See paragraphs 3.72 to 3.81, March 2019 RFR Statement.

cost value as at 1 April 2005. BT must value all other duct by indexing historical spend by RPI.

- Copper and poles must be indexed using RPI.
- Fibre must be held constant in nominal terms, i.e. valued on a historical cost accounting (HCA) basis (i.e. we consider that HCA gives a reasonable estimate of the replacement cost).

- 5.68 We propose to continue requiring BT to prepare the RFS on a CCA basis since this is consistent with our approach to cost modelling and we consider that the use of current cost valuations gives better signals for efficient investment and entry than historical costs.⁶⁵
- 5.69 We propose to continue to require BT to value fibre on an HCA basis.⁶⁶ However, we propose a change to the indexation approach we require BT to apply to duct, copper and poles.
- 5.70 As noted above, we currently require BT to revalue duct, copper and pole assets by indexing them to RPI. We started indexing BT's duct and copper assets using RPI in our 2012 LLU WLR Statement.⁶⁷ Prior to this BT used an absolute valuation approach which we did not consider robust. At the time, we considered it was more appropriate to estimate replacement cost by indexing historical spend, reduced to reflect the scope for a cost discount for a single large scale rebuilding project. We considered that RPI was a reasonable index as it was a widely used and understood index and appeared to sit within a range informed by a building cost index adjusted for potential national build discounts.⁶⁸
- 5.71 Two factors suggest it may be appropriate to consider an alternative approach to RPI indexation.
- 5.72 First, RPI lost its National Statistic status in 2013⁶⁹ and RPI will no longer be published in its current form from 2030. HM Treasury and the UK Statistics Authority (UKSA) consulted on reforming RPI in March 2020.⁷⁰ The consultation response set out the UKSA's policy to address shortcomings of the RPI in February 2030 by aligning RPI with CPIH.⁷¹ During the period of this market review therefore, RPI could cease to exist in its current form.
- 5.73 Second, high levels of inflation, including RPI, in recent years have led to volatile CCA movements in the RFS, particularly in the PI market where most index-linked assets (i.e. duct and poles) sit.

⁶⁵ From an accounting point of view, only the original asset value is depreciated to the income statement under HCA and CCA, although the profile of that depreciation (net of any holding gains) is different (with CCA depreciation generally lower than HCA at the start of an asset's life, and higher towards the end when replacement costs are increasing). However, switching between HCA and CCA during an asset's life can mean the amount of depreciation is higher or lower than the original asset value and give rise to potential cost recovery concerns. This was the basis for the introduction of the RAV adjustment mentioned above.

⁶⁶ For the reasons set out in the [2019 PIMR and BCMR Statement, Annex 19, A19.38 - A19.55](#).

⁶⁷ [Charge control review for LLU and WLR services](#), March 2021, Annex 1

⁶⁸ See paragraphs A1.165 - A1.172 of the 2012 LLU WLR Statement.

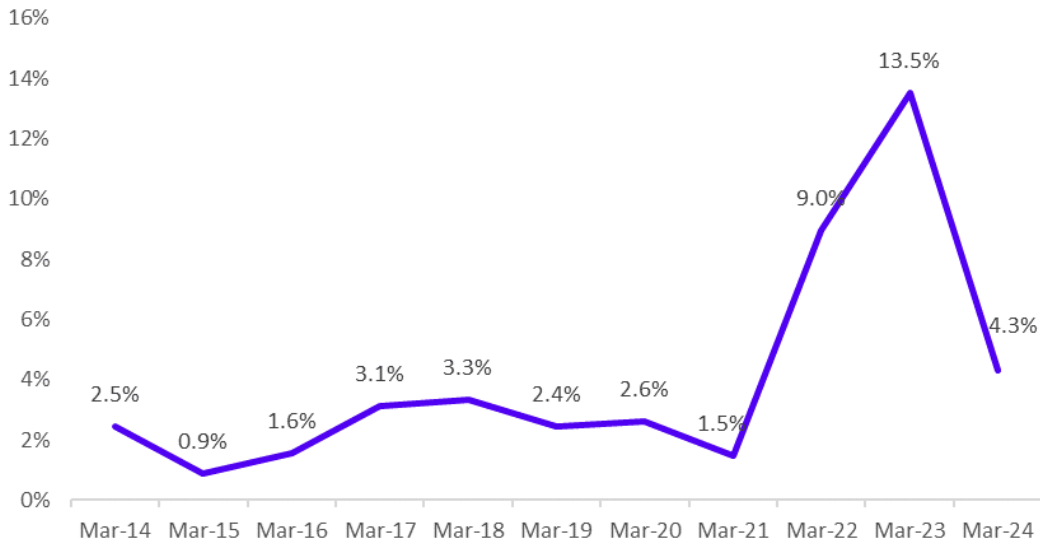
⁶⁹ [UK Statistics Authority press release 10th January 2013](#)⁷⁰ UK Statistics Authority, March 2020. [A Consultation on the Reform to Retail Prices Index Methodology](#) [Accessed 30 October 2024]

⁷⁰ UK Statistics Authority, March 2020. [A Consultation on the Reform to Retail Prices Index Methodology](#) [Accessed 30 October 2024]

⁷¹ [A Response to the Consultation on the Reform to Retail Prices Index \(RPI\) Methodology](#), 25 November 2020.

5.74 Figure 5.1 shows the RPI rate used to index duct, copper and pole assets in the RFS over the last 10 years.⁷² RPI inflation in the year to March 2022 and March 2023 was particularly high compared to the rest of the period.

Figure 5.1: RPI used to index duct, copper and pole assets in the RFS



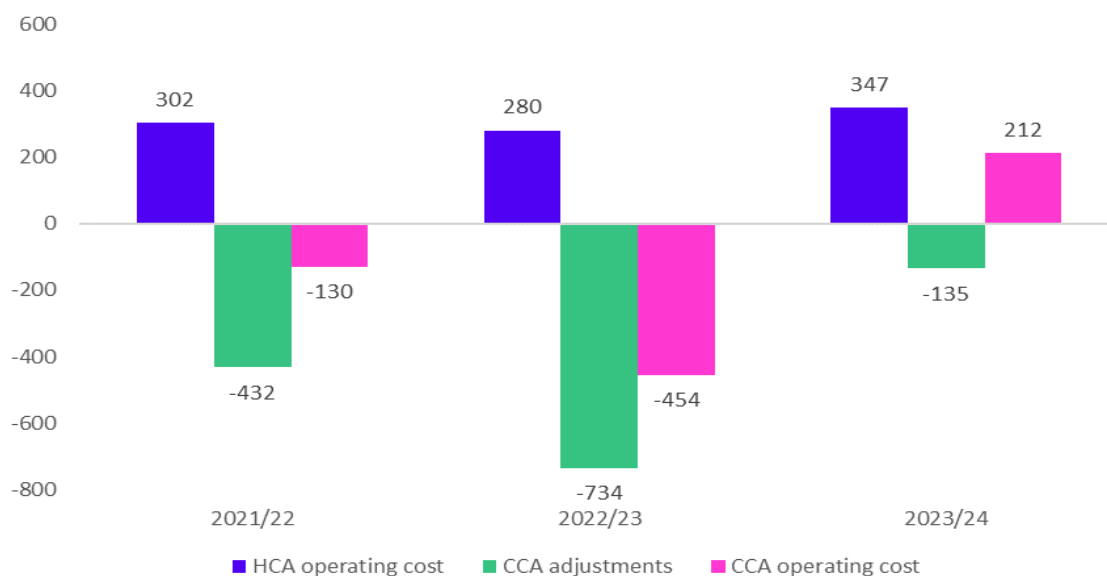
Source: BT, AF13 2023/24

5.75 When RPI inflation is high, holding gains in the RFS can be significant. Holding gains have the effect of reducing CCA operating costs in the year.⁷³ In the PI market, holding gains in some years were so large that CCA operating costs were negative. The chart below shows that while HCA costs in the PI market were relatively stable in the first three years of the current review period, the large CCA adjustments (which were driven by holding gains) resulted in negative CCA operating costs in two out of the three years.

⁷² In the RFS, the 12-month RPI rate in March of each year is used to index duct, copper and pole assets.

⁷³ Holding gains represent the in-year increase in the replacement cost of the asset. Holding gains are reflected in the income statement and have the effect of reducing costs in the year (if the replacement cost of assets increases).

Figure 5.2: HCA and CCA operating costs in the PI market, £m



Source: BT RFS

- 5.76 These volatile movements can make the RFS harder to interpret, and some stakeholders have noted the impact these movements have had on figures presented in the RFS. For example, when there are significant holding gains, returns can appear high and internal PI prices can appear negative. BT has also published a ‘regulatory financial commentary’ in recent years which adjusts the returns reported in the RFS for the impact of high holding gains.⁷⁴
- 5.77 Where inflation is persistently higher than the forecast used to set cost-based prices, there is a risk that BT will over recover the cost associated with some assets (as the higher asset value could be reflected in future prices, via higher depreciation and return on capital employed, but not the offsetting in-year holding gains which will have been set as part of any price control). Similarly, where inflation is persistently lower than the forecast used to set cost-based prices, there is a risk that BT may under recover costs on some assets.
- 5.78 Given these issues, we propose to replace the current RPI indexation approach to duct, copper and pole asset valuation with a flat 2% indexation approach from 1 April 2026.⁷⁵ This rate has been used in our cost modelling to set PI prices and would be reflected in the RFS from April 2026.
- 5.79 We think there are benefits in using a CCA approach in our cost modelling to give better signals for efficient investment and entry than historical costs, and to reflect that CCA approach in the RFS. We think a flat rate would continue to deliver these benefits while using the same fixed rate for cost modelling and in the RFS will help avoid the volatility and cost recovery risks that could be associated with linking asset valuation to a particular inflation index.
- 5.80 Many of the costs associated with duct, copper and pole assets relate to (capitalised) labour and civils (e.g. the cost of closing roads and securing wayleaves), whose costs are

⁷⁴ See for example BT’s [Regulatory Financial Commentary 2024](#).

⁷⁵ The RAV adjustment on duct would still apply, but our proposal would mean the index used to inflate pre-1997 access duct will change to a flat 2% rate from April 2026.

likely to increase over time. There may be cost savings associated with replacing these assets on a planned basis over a short period which could mean replacement costs would not directly increase with changes in average earnings or costs, but we think it is reasonable to assume that the replacement cost of these assets will generally increase over time. A flat rate of 2% is consistent with the Bank of England's long run CPI inflation target and we think estimating the replacement cost of these assets in line with this long run view of inflation provides a reasonable allowance for potential changes in replacement costs. While we recognise that a flat rate may not reflect changes in the replacement cost of assets in any particular year, we think it will reasonably reflect changes in replacement cost over time.

- 5.81 We think the reduced volatility associated with this approach would also address some stakeholder concerns with internal PI prices reported in the PI market. In particular, it should avoid negative internal PI prices being reported in the RFS.
- 5.82 Using a flat rate could also make the RFS easier for BT to prepare and may reduce the need for BT to produce 'adjusted' returns in any regulatory financial commentary it decides to publish.
- 5.83 We have included text in the proposed 'consistency' direction in Volume 7 which requires BT to value duct, copper and poles in line with our proposals.

Services included in BT's regulatory accounting system

- 5.84 As set out in section 4, we require BT to publish financial information on certain services in its RFS. In some cases, the service information published in the RFS is an aggregation of smaller services that BT provides.
- 5.85 The services included in BT's regulatory accounting system are generally the same as the services it is required to publish in the RFS and are not further disaggregated. For example, if we require BT to publish financial information on 'other WLA rentals', this is the 'service' that it allocates cost to in its regulatory accounting system, and costs are not separately allocated to individual services which are a part of 'other WLA rentals.'
- 5.86 During this market review, we found that we did not have granular cost and returns information on all services in SMP markets that we were interested in monitoring. While BT may be able to estimate costs and returns for such services, this may need to be done outside of its regulatory accounting system, meaning that cost and profitability information may not be prepared on a basis consistent with other services reported in the RFS.
- 5.87 To ensure cost and returns information is available on a greater number of services, we propose to require BT to separately identify in its regulatory accounting system:
- i) all services that it is required to publish in the RFS; and
 - ii) all services in SMP markets where total revenue (across all SMP markets) exceeds £5m.
- 5.88 BT must allocate costs and revenues to all such services in its regulatory accounting system. We have set a revenue threshold as we recognise that in some SMP markets BT provides many services and it would not be proportionate to require it to separately identify each of these in its regulatory accounting system. In some cases, it may not be

possible or practicable for BT to allocate costs and revenues to services, so we propose that BT can, with our agreement, adopt an alternative treatment for particular services.⁷⁶

- 5.89 This proposal also supports our proposed private reporting requirement in section 6 (for BT to provide us with financial information on services included in its regulatory accounting system).
- 5.90 We consider that this proposal will ensure that financial information on services in SMP markets is available, allowing us to monitor BT's performance in these markets and understand how it prepares its RFS.
- 5.91 Our proposed requirement is in the Consistency Direction in Volume 7.

Exchange closure and copper recovery

- 5.92 A fibre network requires fewer exchange buildings than a copper network, so the transition to fibre will result in Openreach closing exchanges as well as recovering copper that is no longer used. We have investigated how BT's exchange closure and copper recovery programmes are currently accounted for and whether we need to direct BT to prepare the RFS in a particular way to ensure financial information on these programmes is available during the next charge control period.

Exchange Closure Programme

- 5.93 BT leases most exchange buildings. Openreach could start to vacate exchange buildings during this review period as BT's lease agreement contains break clauses in 2031 and 2041.⁷⁷
- 5.94 Openreach is likely to incur costs vacating exchanges, in relation to moving CPs out of exchanges and preparing the buildings to be vacated. There may also be income associated with exiting and returning exchanges to the lessor.
- 5.95 BT told us that, in the RFS, any costs associated with exchange closure would be allocated using the same allocation pathways as other exchange related costs,⁷⁸ while any income would be recognised in other operating income.⁷⁹
- 5.96 Given the expected growth in the exchange closure programme, we want to ensure BT can separately identify costs and income associated with exchange closure in its regulatory accounting system. This will help build confidence that BT is accounting for exchange closure appropriately in its RFS and allow us to take account of such income and costs when setting charge controls, where relevant. It will also support the private reporting we propose to impose on BT in relation to exchange closure in section 6. We therefore propose to require BT to separately identify costs and income associated with exchange closure in its regulatory accounting system and have included a new requirement in the proposed Consistency Direction in Volume 7.

⁷⁶ For example, this could involve aggregating them with other services or not allocating costs to them.

⁷⁷ See page 177 of BT's [2024 annual report](#).

⁷⁸ Most property costs in the RFS are allocated to WLA services. See page 19 of the 2023/24 RFS.

⁷⁹ BT response dated 17 January 2025 to s135 notice dated 23rd October 2024, question B3.

Copper Recovery Programme

- 5.97 As Openreach moves its customers from its copper network to its fibre network, the redundant copper cables may be extracted and sold. BT told us that net proceeds from copper recovery increased in the last four years, though remain relatively low.⁸⁰ As Openreach accelerates the migration to fibre networks, net proceeds from copper recovery may become more significant.
- 5.98 The AMD does not explain how BT allocates net proceeds from copper recovery in the RFS. BT told us that net proceeds associated with recovering copper from the core network are allocated to non-SMP markets, while net proceeds associated with exchange side copper cables are allocated to WLA markets (54% in 2023/24) and non-SMP markets.⁸¹
- 5.99 WLA markets are likely to attract a higher proportion of copper recovery net proceeds in future as cable recovery activities increase on the exchange side.⁸²
- 5.100 Given the expected growth in copper recovery net proceeds, we want to ensure BT can separately identify costs and income associated with copper recovery in its regulatory accounting system. This will help build confidence that BT is accounting for copper recovery appropriately in its RFS and allow us to take account of such income and costs when setting charge controls, where relevant.⁸³ It will also support the private reporting we propose to impose on BT in relation to copper recovery in section 6. We therefore propose to require BT to separately identify costs and income associated with copper recovery in its regulatory accounting system and have included a new requirement in the Consistency Direction in Volume 7.

Basis of preparation – directions applicable to specific markets

- 5.101 In this section we set out proposed requirements on BT in relation to specific SMP markets which we consider are required to maintain consistency with our regulatory decisions. These proposals are included in the ‘consistency direction’ in Volume 7. This direction ensures the RFS are prepared on a basis that allows us to assess the impact and effectiveness of our remedies. It provides assurance to stakeholders that information is being created and retained in a way that appropriate regulation can continue to be maintained in future.

⁸⁰ Openreach response dated 27th January 2025 to s135 notice dated 13th January 2025, question A1.

⁸¹ BT response dated 17th January 2025 to s135 notice dated 23rd October 2024, question B3.

⁸² BT response dated 17th January 2025 to s135 notice dated 23rd October 2024, question B3.

⁸³ For example, in the 2018 FAMR Statement we set prices for copper services that took account of the expected future recovery of exchange side copper cables. See Table A8.13 [WLAMR 2019 Statement Annex 1-9](#).

Physical infrastructure

Proposals related to current requirements

5.102 We are proposing to retain (with or without amendments) some of the requirements imposed via direction in the WFTMR21. There are other requirements that we are not proposing to retain. We set this out in more detail below:

- **Identification of pole costs.** BT historically recorded the cost of poles under several different classes of work (e.g. copper and fibre), though it introduced a separate poles class of work to record the costs of new poles in April 2021. BT is currently required to separately identify and report the volumes and capital costs of pole assets. It was also required to commission additional procedures in 2021/22 when it introduced a methodology to comply with this requirement. BT introduced changes to comply with this direction in its 2021/22 RFS.⁸⁴ Given BT's regulatory accounting system enables it to separately report poles information (as required in the market level schedules for PI proposed above) this, we propose not to retain this direction.
- **Poles asset life.** In WFTMR21, we decided to apply a 40 year asset life to poles in our cost modelling. To ensure consistency with our modelling approach, we required BT to depreciate capitalised poles cost over 40 years from April 2021. However, we recognised that other evidence on the economic life of poles could become available so we said BT would need to put any subsequent changes to the pole asset life through the CCN process. As BT currently depreciates poles over 40 years, we propose not to retain this direction.
- **Lead-in duct.** In WFTMR21, we set changes for a simplified lead-in duct product and noted that Openreach did not routinely keep records of lead-in duct infrastructure. To ensure information on lead-in duct was available we required BT to separately identify and report the volume and cost of lead-in duct. As BT's regulatory accounting system now enables it to separately report information on lead-in duct (as required in the market level schedules for PI proposed above), we propose not to retain this direction.
- **Attribution of duct to PI services.** In WFTMR21, for the purposes of setting prices, we allocated duct costs to PI services on two different methodologies depending on whether they were installed before or after 31 March 2018. In the RFS, BT is currently required to:
 - i) separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018;
 - ii) attribute costs associated with pre- March 2018 duct to PI services using percentages set out in the direction (consistent with our modelling approach and unchanged from WFTMR21); and
 - iii) attribute costs associated with post-March 2018 duct to PI services in proportion to the estimated standard cost of each PI service, where the standard cost is estimated by reference to standard unit costs and volumes.

We propose to continue applying these requirements to ensure the RFS are prepared on a basis consistent with our modelling approach.

- **Network adjustments.** In WFTMR21, we imposed requirements on BT to:

⁸⁴ See section 2.1.7 of BT's 2021/22 CCN

- i) identify and record network adjustment costs (both above and below the financial limit);
- ii) capitalise internal and external network adjustments below the limit in the PI market;
- iii) expense internal and external network adjustments above the limit in the PI market; and
- iv) attribute to pole services all costs of Network Adjustments undertaken to provide capacity on poles or to make poles useable for dropwires and ensure that these Network Adjustments can be separately identified.

We propose to retain these requirements to ensure that BT reports network adjustments on a basis consistent with the proposed PI charge control and non-discrimination obligations (which are unchanged from WFTMR21).

- **Mapping BT’s physical infrastructure records and financial records.** In WFTMR21, we required BT to map additions to its physical infrastructure records to additions to financial records. The objective of this direction is to ensure that the asset costs recorded against PI (from the fixed asset register) capture all relevant PI assets, and that those assets exist (from the physical infrastructure records). We propose to retain this requirement to ensure that BT appropriately captures the costs of PI assets in the PI market.

New requirements

- 5.103 Consistent with our proposed approach to cost modelling, we propose to require BT to allocate costs associated with cable up a pole and pole top equipment to pole attachment services in proportion to the volume of pole attachment services.

WLA

FTTC, FTTP and SOGEA connection services

- 5.104 SOGEA connections within BT’s regulatory accounting system currently include revenues and costs associated with new connections requiring an engineer to install at a premises or cabinet (‘standard connections’) alongside connections for start of a stopped line and transfers.
- 5.105 There are large differences in pricing for these connection services reflecting the different activities associated with them⁸⁵ (e.g. whether or not an engineer needs to carry out the installation). In Annex 13 we explain that, in our cost modelling, we estimated the split of costs between standard connections and start of a stopped line/transfers for SOGEA connections.
- 5.106 It is possible that a similar issue could arise with FTTC and FTTP connection services, where the Openreach price list reports similarly priced services.⁸⁶
- 5.107 In WLA markets, we propose to require BT to separately identify in its regulatory accounting system volumes, revenues and costs associated with:
- i) start of stopped lines, transfers, CP to CP migrations and working line takeovers (and other similar services) and

⁸⁵ For example, as of 1 April 2024, the price of a SOGEA start of a stopped line or transfer is £3.71 compared to £101.30 for a standard SOGEA engineer install at premises.

⁸⁶ For example, FTTP CP to CP migrations and working line takeovers, and FTTC start of stopped lines are also priced at £3.71, compared to higher charges for other types of connections requiring an engineer visit.

ii) other connections.

5.108 This will align with our cost modelling approach for SOGEA and ensure that reported costs for these services better reflect the activities associated with providing them and that reported profits are more meaningful.⁸⁷

Leased lines access and inter-exchange connectivity services

Proposals related to current requirements

5.109 We are proposing not to retain some of the requirements imposed via direction in the WFTMR21, while retaining others. We explain in more detail below:

- **ECCs:** We required BT to expense, rather than capitalise, costs associated with ECCs, so that the treatment matched the approach to recognising ECC revenues. Given that the principle of objectivity in the RAPs requires BT not to capitalise costs recovered through upfront charges (such as ECCs), we do not think a separate direction is required to ensure BT continues this practice in this review period. We therefore propose not to retain this direction.
- **Dark fibre costs derived from EAD component costs:** We required BT to separately identify: i) systems and development costs for dark fibre services; and ii) SLG payments in relation to provision and assurance for dark fibre services. As BT now attributes costs from relevant components to dark fibre services in its regulatory accounting system, we propose not to retain this direction.
- **Costs specific to dark fibre:** We required BT to separately identify various inputs and assumptions related to costs for patch panel, initial testing, RWT and cessation charges reported in the RFS, derived from an apportionment approach where necessary. We propose to retain this requirement to support: i) the reporting of cost information on these services in the published RFS; and ii) the AFI provided to Ofcom with detailed cost information on these services. We also required BT to depreciate the capitalised cost of patch panels over 7 years from 1 April 2021 and put any subsequent changes through the CCN process. As BT currently depreciates patch panels over 7 years, we propose not to retain this direction.

Assurance

5.110 Some reporting requirements on BT exist to provide assurance to stakeholders that the RFS have been properly prepared.

5.111 We propose to impose the following requirements on BT which are consistent with current requirements:

- Reconciliation to statutory financial statements.
- Audit of the published RFS.
- Additional procedures.

⁸⁷ Whether BT is required to separately publish information on these services in its RFS will depend on whether they meet the thresholds for reporting set out in section 4. Our proposals for private reporting in section 6 would mean we would receive information on these services.

Reconciliation to statutory accounts

- 5.112 The reconciliation statement BT is currently required to prepare identifies the main differences in revenues, operating costs and returns between the RFS and the statutory financial statements for both Openreach and BT Group plc. For BT Group the reconciliation statement additionally reconciles mean capital employed.
- 5.113 We consider that requiring BT to publish the main reconciling adjustments, alongside an explanation of what they relate to, provides some assurance that the RFS are consistent with the audited statutory financial statements. This in turn gives stakeholders confidence that the data in the RFS is properly extracted from the books and records used to prepare the audited statutory financial statements.
- 5.114 We therefore propose to require BT to publish a reconciliation statement to provide assurance that the RFS is complete and includes all relevant financial records. The reconciliation statement has two parts – a reconciliation to the BT Group income statement and a balance sheet reconciliation.
- 5.115 We propose that the format of these schedules remains the same as current requirements, that BT continues to provide a brief description of each adjustment shown in the reconciliation statement and that BT can add or remove rows at its discretion (but must publish a description of any changes).
- 5.116 For the income statement, we also propose that BT continues to publish a breakdown of the reconciling amount for Openreach described as ‘other trading differences’.⁸⁸ As per current requirements, this breakdown would use the cost categories reported in the attribution of operating costs schedule. In WFTMR21, we also required BT to provide an explanation for the different accounting treatment between the RFS and BT annual report for any cost category representing 10% or more of the other trading differences reconciling item. We propose to amend this requirement to require BT to publish an explanation of the main drivers of difference in the ‘other trading differences’ breakdown to align with the approach taken (with our agreement) in the 2023/24 RFS.
- 5.117 The proposed income statement and balance sheet reconciliation schedules are set out in the form and content direction in Volume 7.

Audit of the published RFS

- 5.118 The proposed Audit Direction sets out the standard of audit review BT is required to obtain for the financial information contained in the RFS. Audit of the RFS gives confidence that the RFS is free from material error and has been prepared following the AMD published by BT and relevant directions issued by Ofcom. We propose to retain this audit requirement and we do not propose any changes from current requirements.

⁸⁸ This relates to differences between Openreach operating costs reported in BT’s annual report and Openreach operating costs published in the RFS. Differences mainly relate to how BT costs/internal transfer charges are attributed to Openreach.

Additional procedures

- 5.119 Consistent with current requirements, we propose to require BT to commission ‘additional procedures’, as and when we request, to allow us to respond to issues that may arise during the review period. Additional procedures are defined in SMP condition 11.1 as “an engagement under which the Regulatory Auditor or another person independent from the Dominant Provider performs a set of procedures required by Ofcom and based on Ofcom’s specific requirements in relation to the Regulatory Financial Statements, and reports the findings of that work to Ofcom.”
- 5.120 As we noted in the WFTMR21, in some circumstances ‘additional procedures’ could be in the form of agreed upon procedures (AUP) from the regulatory auditor⁸⁹ but in other circumstances it could be a broader piece of work commissioned from another independent third party.
- 5.121 The proposed requirement is included in the SMP Condition in Volume 7.

Consultation question

Question 6.3: Do you agree with our proposals in relation to the preparation and assurance of the RFS set out in Section 5? Please set out your reasons and supporting evidence for your response

Question 6.4. To what extent do you think it is necessary to require BT to publish in the reconciliation report the impact on current year figures of each methodology change reported in the CCN (which includes the impact of each change on prior year figures)?

⁸⁹ Under AUP auditors carry out specific tests without giving an opinion. In some circumstances AUP may be sufficient to meet our objectives (e.g. checking calculations in a compliance submission), but they may not be appropriate where an opinion or judgement is required.

6. Information provided to Ofcom

Background

- 6.1 We currently require BT to provide us with some information privately. We require this information to make informed regulatory decisions, monitor compliance with SMP conditions and ensure that those SMP conditions continue to address the underlying competition issues.
- 6.2 The information provided privately by BT principally relates to data and models supporting the RFS and 'additional financial information' (AFIs) relating to SMP markets. In this section we set out proposals in relation to these requirements.

Data and models supporting BT's cost accounting system

- 6.3 BT is currently required to provide us with the data and models used to run its cost attribution system (currently CostPerform) in current and prior years, alongside any additional spreadsheets or models used to prepare the schedules in the RFS. BT is required to provide this at the same time as the RFS is published. If we had access to the same software, this data could effectively allow us to generate the RFS.
- 6.4 Since WFTMR21, we have not found this a cost effective means of obtaining information from BT and analysing the data underpinning RFS. Formatting the data to work in our version of CostPerform took time and we frequently needed to liaise with BT to extract data correctly and on a basis consistent with the RFS. Given this, and as we no longer have access to the relevant software, we propose not to retain the requirement on BT to provide us with the data and models used to run its cost attribution system. This would be a change to SMP Condition 11 and the current Form and Content Direction.
- 6.5 It is, nonetheless, important that we can continue to interrogate the information used to prepare the RFS and understand how BT is complying with its cost accounting obligations. As such we propose additional AFIs, set out below, to ensure we continue to get the information we need.

AFIs relating to all markets

Changes to current requirements

6.6 We currently require several AFIs in relation to all markets. These are set out in the form and content direction in Volume 7. We propose not to retain the requirement to provide data supporting the cost attribution system, as explained above, but retain all other requirements listed below.⁹⁰

- CCA fixed asset movement statement

6.7 Data supporting CCA valuations

- Asset lives and depreciation
- Regulatory Asset value (RAV) adjustment applied to Access duct
- PAC breakdown
- Cost component mapping
- Grant funded assets

6.8 We propose to require BT to provide additional AFIs to provide granular service and component level information, as well as information on exchange closure and copper recover, as set out below. This will ensure we continue to receive detailed information from BT's regulatory accounting system that will allow us, alongside other AFIs, to interrogate the RFS and understand how BT is complying with its cost accounting obligations.

New AFI requirements

6.9 We propose to require BT to provide four additional AFIs in relation to all markets. The first two AFIs require:

- i) a breakdown of revenues and costs for all services in SMP markets in BT's regulatory accounting system; and
- ii) a breakdown of service level opex and MCE by component.

These two schedules will ensure we continue to receive certain information previously obtained under the 'Data supporting the cost attribution system' requirement. They will help us interrogate the information used to prepare the RFS and better understand how BT is complying with its cost accounting obligations.

6.10 The first new AFI requirement, the breakdown of revenues and costs for all services, should include a breakdown by CCA operating cost category and MCE cost category consistent with those reported in the RFS, alongside volume information for each service. Given our proposal in section 5, that BT's regulatory accounting system must separately identify all services with revenue from SMP markets exceeding £5m (unless we otherwise agree), we would expect this AFI to include details of all such services, not just those reported in the RFS. We expect that compliance with this requirement could be met by BT continuing to

⁹⁰ These requirements were discussed in paragraphs 5.23 to 5.25 of Volume 6 of WFTMR21.

provide a file which it currently gives to us under the 'Data supporting the cost attribution system' AFI.⁹¹

6.11 The second new AFI requirement should show a breakdown by component of total CCA operating cost and MCE for each service provided in BT's regulatory accounting system. Operating cost and MCE should reconcile to that provided as part of the first new AFI requirement. BT could provide a single schedule to meet the requirements of both new AFIs.

6.12 The third and fourth new AFIs relate to exchange closure and copper recovery.

6.13 The third new AFI requires BT to provide:

i) total income and costs associated with exchange closure, broken down by the amount allocated to SMP and non-SMP markets; and

ii) an updated list of planned exchange closures including name of the exchange, timetable for closure/hand back date, current rental charge and an estimate of annualised benefit (where available).

BT should also provide details of any provisions and contingent liabilities associated with future exchange closures which are included in its statutory accounts but not in the RFS. This information will help us understand where revenues and costs related to exchange closure are reported in the RFS, the impact on regulated services and markets, and give us insight into the potential scale of future revenues and costs associated with exchange closure.

6.14 The fourth new AFI requires BT to provide details of total net proceeds from its copper recovery programme, broken down by the amount allocated to SMP and non-SMP markets. This will help us understand how BT's copper recovery programme is reflected in figures reported in the RFS.

6.15 These four new proposed AFIs are set out in the proposed form and content direction in Volume 7.

⁹¹ The 2023/24 file is called "AFI.01 Master RFS FY24".

Market specific information

- 6.16 We propose to require BT to provide us with AFI schedules specific to the proposed SMP markets and cross market ancillaries. These proposals are set out below and the requirements are in the form and content direction in Volume 7.

Physical infrastructure market

- 6.17 BT is currently required to provide the following AFIs for the PI market. We propose to retain these requirements:⁹²
- Costs of lead-in duct and single bore spine duct.
 - Attributions of duct costs to PI services.
 - PI utilisation metrics.
 - PIA ancillaries related to network adjustments and other PIA ancillaries.
 - Mapping physical infrastructure records and financial records.

WLA markets

- 6.18 BT is currently required to provide the following four AFIs for the WLA market. We propose to retain these requirements:⁹³
- FTTP investment in Area 2 and Area 3.
 - FTTP homes passed.
 - Time related charges.
 - Special fault investigations.

LLA and IEC markets

- 6.19 Currently, three AFIs apply to all LLA and IEC markets (related to time related charges, contractor ECCs and optical services) and one (relating to dark fibre) applies to the LLA Area 3 and IEC BT Only markets.
- 6.20 We propose to retain the three AFIs applying to all LLA and IEC markets but amend the optical services requirement and to require an additional AFI in relation to Direct ECCs. We also propose to retain the dark fibre AFI but to also apply it to the IEC BT+1 market, in line with our proposal to apply the dark fibre remedy to LLA Area 3, IEC BT Only and IEC BT+1 markets.

⁹² The purpose of these requirements was set out in paragraphs 5.31 to 5.55 of Volume 6 of the WFTMR21.

⁹³ The purpose of these requirements was set out in paragraphs 5.61 to 5.71 of Volume 6 of the WFTMR21.

Table 6.4: Proposed changes to current requirements on LLA and IEC markets

Requirement from WFTMA 21	Proposal
Time related charges	Retain requirement
Contractor ECCs	Retain requirement
Direct ECCs	New requirement, as explained below, to provide costs for each Direct ECC which reconcile to the RFS.
Optical Services	Amend, as explained below, to require BT to provide additional information on costs and MCE of optical services.
Dark fibre patch panels, initial testing, Right When Tested (RWT) and Cessation charges	Retain requirement on LLA Area 3 and IEC BT Only and apply to IEC BT+1

Proposed changes to optical services requirement

- 6.21 BT is currently required to provide us with a breakdown of the volumes and revenues of optical services published in the RFS by reference to the following categories: Optical Spectrum Access (OSA), Optical Spectrum Extended Access (OSEA), Optical Spectrum Access Filter Connect (OSA Filter Connect), Optical Spectrum Extended Access Filter Connect (OSEA Filter Connect) and other optical services.
- 6.22 Given the recent growth in optical services, it is important that we can monitor the profitability of the main types of optical services sold to assess the effectiveness of our CPI-0% charge control within the LLA and IEC markets.
- 6.23 We therefore propose to require BT to additionally provide, for each LLA and IEC market, volume, revenue, cost and MCE information for major services within these optical service categories. This will help us better understand the profitability of these services across LLA and IEC markets.
- 6.24 As BT provides thousands of optical services, we consider it would be proportionate to only require this information for any individual service where total revenue for that service (across all LLA and IEC markets) exceeds £5m within the OSA, OSEA, OSA Filter Connect and OSEA Filter Connect categories. Where information on individual services is not available from BT’s regulatory accounting system, BT must explain how it has estimated the data provided or explain why it cannot be provided.

Proposed new Direct ECCs requirement

- 6.25 Direct ECCs are subject to a proposed basket control of CPI-0% with a CPI+5% sub cap on each individual Direct ECC service to allow BT to rebalance these charges if required.
- 6.26 While we propose in section 4 to require BT to separately publish information on the Direct ECCs basket in the RFS, we want information on costs for individual Direct ECC services, to allow us assess profitability of these services and the impact of any price rebalancing BT undertakes. We think this will help us understand the effectiveness of our regulation.⁹⁴
- 6.27 We therefore propose that BT provides the volumes, revenues, operating costs and MCE for each Direct ECC. Where possible, operating cost categories should be split between direct labour and overhead costs. BT should reconcile this information to the published

⁹⁴ We monitor compliance with the Direct ECC basket control using BT’s annual compliance submission.

numbers in the RFS or explain why this is not possible. Where information on individual services is not available from BT's regulatory accounting system, BT must explain how it has estimated the data provided or explain why it cannot be provided.

Cross market ancillaries

- 6.28 BT currently provides an AFI setting out the calculation of electricity charges, including the level of BT's mark up on the purchase of electricity costs. This must be reconciled to the published RFS.
- 6.29 We propose to amend the direction to require BT to provide us with a more detailed breakdown of its electricity costs each year. This is consistent with information BT has previously provided when we have sought further information.

Consultation question

Question 6.5: Do you agree with our proposals in relation to information provided to Ofcom set out in Section 6? Please set out your reasons and supporting evidence for your response.

7. Legal tests

Introduction

- 7.1 In sections 1 to 6 above, we set out proposals to impose regulatory financial reporting obligations on BT in relation to each of the markets in which we have proposed to make an SMP finding. In order to give effect to these proposals, we are proposing to set draft SMP Condition 11 which can be found in Volume 7.
- 7.2 Under draft SMP Condition 11, Ofcom may from time to time make such directions as they consider appropriate in relation to BT's reporting obligations.
- 7.3 To give effect to our proposals we also propose to give five directions under section 49 of the Act and SMP Condition 11 in relation to each of the proposed SMP markets. The proposed directions are set out in full in Volume 7. The proposed directions are:
- a) Regulatory Accounting Principles Direction
 - b) Preparation, Delivery, Publication, Form and Content Direction
 - c) Consistency with Regulatory Decisions and Regulatory Asset Value Direction
 - d) Audit of the RFS Direction
 - e) Reconciliation Report Direction
- 7.4 As stated in sections 2 and 5, we are not proposing to give a Network Components direction in this review.

SMP Condition

- 7.5 In order to carry out our duties it is essential that robust financial information is available on the services and markets that we regulate. The availability of this information helps us understand the volumes, revenues, costs and returns of services and in markets, which allows us to monitor the impact and effectiveness of, and (for certain remedies) compliance with, the remedies imposed as part of a market review.
- 7.6 We consider that accounting separation including where appropriate some cost accounting rules provide us with the information necessary to help us make informed regulatory decisions, for example cost information to support price controls on an ongoing basis, and information necessary to assess the impact and effectiveness of our decisions, for example, trends in the usage and returns associated with regulated services. They also enable us to monitor and, if necessary, enforce no undue discrimination and some price control regulations.
- 7.7 Publication of some information helps inform stakeholders so they can have confidence that BT is complying with its obligations and that regulation is effective and appropriate to achieve its purpose. It enables them to identify and bring issues to our attention and effectively contribute to the regulatory regime. This promotes confidence in the market, which in turn creates the conditions for effective competition.

Accounting Separation

- 7.8 Our proposed accounting separation obligation requires BT to account separately where appropriate for internal and external sales which allows us and stakeholders to monitor the activities of BT to ensure that, where relevant, it does not discriminate unduly in favour of its own downstream business and to monitor BT's activities in respect of the non-discrimination and EOI obligations. This, combined with the cost accounting obligation (see below), helps us to ensure that costs are not inappropriately loaded onto one set of regulated services to the benefit of BT, where BT uses primarily another set of regulated services.
- 7.9 Under sections 87(7) and 87(8) of the Act the dominant provider may be required to maintain a separation for accounting purposes between different matters relating to network access or the availability of relevant facilities. We believe this obligation is required to monitor the overall impact and effectiveness of the remedies proposed, and especially to monitor BT's activities with regard to its non-discrimination and EOI obligations.
- 7.10 Section 87(6)(b) of the Act provides for a dominant provider to publish information for the purpose of securing transparency in relation to matters connected with network access to or with the availability of relevant facilities. The proposed obligation is also necessary to support transparency. It provides a greater detail of information on the relevant markets than could be derived from BT's statutory financial statements and gives visibility, and thus reassurance, to stakeholders that BT has complied with its SMP conditions.
- 7.11 The specific accounting separation requirements we are proposing to impose on BT in these markets are set out in draft SMP Condition 11 in Volume 7.

Cost Accounting

- 7.12 The imposition of a cost accounting obligation ensures that BT has in place a system of rules that support the attribution of revenues and costs to individual markets and services. It therefore supports the accounting separation obligation, which requires BT to prepare and report financial information relating to individual markets and services, by ensuring that the rules attributing revenues and costs to individual markets and services are fair, objective and transparent. The cost accounting obligation is an important means of ensuring that:
- a) Ofcom and stakeholders can have confidence in the financial information prepared and provided by BT since the attribution processes and rules supporting that financial information are fair, objective and transparent. Where we do not consider that the attribution process and rules are fair and objective, transparency (via publication of the processes and rules followed by BT) allows us to effectively challenge them.
 - b) Revenues and costs are attributed to individual markets and services in a consistent manner. This mitigates the risk of double recovery of costs or that costs might be unfairly loaded onto particular services or markets.
 - c) BT records all information necessary for the purposes listed above at the time that relevant transactions occur, on an ongoing basis. Absent such a requirement, there is a strong possibility that the necessary information would not be available when it is required, and in the necessary form and manner.
- 7.13 Section 87(9)(c) authorises conditions imposing such rules as we may make for the purposes of matters connected with the provision of network access to the relevant

network, or with the availability of relevant facilities about the use of cost accounting systems. These would include conditions enabling Ofcom to require the dominant provider to explain what assumptions it has used in determining costs and charges, for the purposes of setting price controls, rules and obligations imposed in relation to price controls, cost recovery and cost orientation, cost accounting systems and adjusting of prices in accordance with Directions from Ofcom. Where such conditions are imposed, section 87(11) imposes a duty on us to also set an SMP condition which imposes an obligation:

- a) to make arrangements for a description to be made available to the public of the cost accounting system used in pursuance of that condition; and
- b) to include in that description details of:
 - i) the main categories under which costs are brought into account for the purposes of that system; and
 - ii) the rules applied for the purposes of that system with respect to the allocation of costs.

7.14 We consider that the proposed condition would fulfil our duty under section 87(11) in that the cost accounting conditions require the publication of a description of the cost accounting system used and the main categories of cost and the cost allocation rules applied.

7.15 We believe the cost accounting obligation is necessary to ensure the processes and rules used by BT to attribute revenues and costs to individual markets and services are fair, objective and transparent. Therefore, we are proposing to impose a cost accounting requirement on BT.

7.16 The specific cost accounting requirements we are proposing to impose on BT in these markets are set out in draft SMP Condition 11 in Volume 7.

Legal tests

Section 47

7.17 We consider that draft SMP Condition 11 satisfies the tests set out in section 47 of the Act, namely that each obligation is:

- a) objectively justifiable in relation to the networks, services or facilities to which it relates;
- b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- c) proportionate to what the condition or modification is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

Objectively justified

7.18 We consider that draft SMP Condition 11 is objectively justifiable. The remedies that we are proposing are designed to address the competition concerns that we have provisionally identified in our market review.

7.19 In the absence of a requirement to provide network access, supported by associated obligations, Openreach could refuse or impede access, or it could provide access on less

favourable terms and conditions compared to those obtained by its own downstream businesses. The accounting separation and cost accounting obligations we are proposing to impose form part of a package of remedies to address these competition concerns. In particular:

- a) The proposed accounting separation requirement allows us and stakeholders to monitor the activities of BT to ensure that, where relevant, it does not discriminate unduly in favour of its own downstream business and to monitor BT's activities in respect of the proposed non-discrimination and EOI obligations. This, combined with the cost accounting obligation, helps us to ensure that costs are not inappropriately loaded onto one set of regulated services to the benefit of BT, where BT uses primarily another set of regulated services.
- b) The proposed cost accounting obligation is necessary to ensure the appropriate maintenance and provision of accounts in order to monitor BT's activities with regard to the pricing remedies we are proposing and monitor their effectiveness at addressing the competition concerns. It is also necessary to secure that information continues to be created and captured so as to secure, and to give stakeholders confidence, that pricing can continue to be appropriately regulated in future, creating the conditions for the price controls we are now proposing to be effective. It also relates to the need to ensure competition develops fairly, to the benefit of consumers, by providing transparency of BT's compliance with rules set to address the risk of exploitative or anti-competitive pricing.

Not such as to discriminate unduly

7.20 We consider that draft SMP Condition 11 does not discriminate unduly against BT. We are proposing that it is the only telecoms provider to hold SMP in the markets that we have identified and the draft conditions seek to address that market position.

Proportionate

7.21 We consider that draft SMP Condition 11 is proportionate to what that condition is intended to achieve. In each case, we are proposing an obligation on BT that: is effective to achieve our aim; is no more onerous than is required to achieve that aim; and does not produce adverse effects which are disproportionate to our aim. We explain above why we consider our proposals are proportionate in the context of the markets we are reviewing.

Transparent

7.22 We consider that draft SMP Condition 11 is transparent in relation to what is intended to be achieved. The text of the draft condition is published in Volume 7 for consultation, and the operation of the condition is aided by our explanations in this document. Our final statement will set out our analysis of responses to this consultation and the basis for any final decision that we take.

Section 87 tests

7.23 As discussed above, we have taken into account the factors set out in section 87(4) of the Act and we consider that the proposed condition would fulfil our duty under section 87(11).

Section 88 tests

- 7.24 In setting cost accounting conditions, we must also ensure that the network access pricing conditions set out in section 88 are also satisfied.
- 7.25 We consider that imposing a cost accounting obligation would be consistent with section 88. We also consider that imposing a cost accounting obligation is necessary for price controls to be effective.

Directions

- 7.26 As discussed above, to give effect to our proposals we also propose to give five directions under section 49 of the Act and SMP Condition 11 in relation to each of the proposed SMP markets.

Section 49 tests

- 7.27 We consider that the proposed Regulatory Reporting Directions satisfy the tests set out in section 49(2) of the Act, namely that in each case the Direction is objectively justifiable, non-discriminatory, proportionate and transparent.
- 7.28 We set out our reasoning below separately in relation to each proposed Direction.

Regulatory Accounting Principles Direction

- 7.29 The RAP are a set of guiding principles with which BT's Regulatory Financial Reporting must comply. To preserve the integrity and consistency of the RFS we consider that the RAP should be implemented across all regulated markets as there are significant advantages to BT and other stakeholders of BT applying one set of principles across all markets.
- 7.30 We propose to give the Regulatory Accounting Principles Direction in relation to BT in each of the proposed SMP markets as set out in Volume 7.
- 7.31 We consider that the draft Regulatory Accounting Principles Direction would meet the tests set out in section 49(2) of the Act in that it is:
- objectively justifiable because by specifying the Regulatory Accounting Principles we will establish the attributes for BT's regulatory financial reporting;
 - not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - proportionate because our direction requires no more than what is required to ensure an absence of bias and consistency with regulatory decisions. While we have established the Regulatory Accounting Principles, BT retains an important role in determining the basis of preparation of the RFS, and can continue to put through methodology changes where this is in line with the RAP and such changes have been notified to Ofcom; and
 - transparent because the intention of our direction is to ensure we take a role in the basis of preparation of the RFS to ensure an absence of bias and consistency with regulatory decisions.

Preparation, Delivery, Publication, Form and Content of the RFS Direction

- 7.32 This proposed Direction provides details of the financial information to be included in the published RFS and to be provided to Ofcom privately. It therefore plays an important role in ensuring the RFS provide relevant information to stakeholders and Ofcom. Some elements of the published RFS relate to all of BT while others are specific to particular markets. To preserve the integrity and consistency of the RFS, we consider that all proposed SMP markets should be subject to appropriate reporting requirements.
- 7.33 We propose to give the Preparation, Delivery, Publication, Form and Content of the RFS Direction in relation to BT in each of the proposed SMP markets as set out in Volume 7. This direction reflects our proposals set out in sections 4, 5 and 6 above. All other requirements of this direction remain unchanged from those included in the WFTMR21.
- 7.34 We consider that the proposed Preparation, Delivery, Publication, Form and Content of the RFS Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because the information to be provided, both in public and in private, seeks to ensure that stakeholders have sufficient information about the products and services they purchase to provide them with reasonable confidence about BT's compliance with its SMP conditions and that we have sufficient information necessary to carry out our functions. This direction will ensure visibility of financial information for each proposed SMP market;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned. We have explained in this document the reasons for requiring relevant additional information from BT both publicly and privately;
 - c) proportionate because the direction will be no more than is required to ensure the effectiveness of our proposals in this market review and will ensure that Ofcom and stakeholders are provided with a sufficient level of information; and
 - d) transparent because the intention of the direction is to make sure that the RFS remain fit for purpose and that Ofcom and stakeholders are provided with a sufficient level of information.

Consistency with Regulatory Decisions and Regulatory Asset Value Direction

- 7.35 This proposed direction specifies how BT should prepare the RFS to be consistent with our regulatory decisions. This ensures that the RFS are prepared on a basis that allows us to assess the impact and effectiveness of our remedies and provides assurance to stakeholders that information is being created and retained such that appropriate regulation can continue to be maintained in future.
- 7.36 We propose to give the Consistency with Regulatory Decisions and Regulatory Asset Value Direction in relation to BT in each of the proposed SMP markets as set out in Volume 7. This direction reflects our proposals set out in section 5 above. All other requirements of this direction remain unchanged from those included in the WFTMR21.
- 7.37 We consider that the proposed Consistency with Regulatory Decisions and Regulatory Asset Value Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because it is necessary for us to give a direction which specifies the accounting treatment of various costs across the proposed SMP markets in order

that the RFS fulfils its purpose in enabling the monitoring of our SMP conditions, securing the effectiveness of our price controls and stakeholder confidence in the market. For example, in the physical infrastructure market we need to specify the accounting treatment of the physical infrastructure costs so that the RFS is consistent with our regulatory proposal to set maximum charges on PIA; in the Leased Lines Access – Area 3 and IEC – BT only and BT+ 1 markets we need to specify the accounting treatment of dark fibre costs so that the RFS is consistent with our regulatory proposal to set prices for dark fibre at cost; in other markets where we have proposed some form of price regulation it is necessary to specify the accounting treatment of various costs to ensure consistency with our regulatory proposals to set price controls. Furthermore, the direction is objectively justifiable in that the requirements specifying the RAV methodology establish further detail and provide BT with clarity as to the requirements which BT will need to follow to ensure that the RFS are prepared on the RAV current cost basis. We also need to specify what services and categories of cost should be separately identified in its regulatory accounting system to ensure BT is capable of providing the information we need;

- b) not unduly discriminatory, in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
- c) proportionate because our proposal is no more than would be required to ensure consistency with our decisions. Further, BT retains a key role in determining the basis of preparation of the RFS; and
- d) transparent because it is clear that the intention of our proposal is to ensure that BT's RFS are consistent with our decisions in relation to the price controls proposed in the proposed SMP markets, and the wider pricing obligations in other markets.

Audit of the RFS Direction

7.38 Audit of the RFS gives users confidence that the information provides a fair reflection of financial performance, is free from error and has been prepared following the accounting methodology statements published by BT and relevant directions issued by Ofcom. To preserve the integrity and consistency of the RFS we consider that all markets should be subject to the same audit direction.

7.39 We propose to give the Audit of the RFS Direction in relation to BT in each of the proposed SMP markets.

7.40 We consider that the proposed Audit of the RFS Direction meets the tests set out in section 49(2) of the Act in that it is:

- a) objectively justifiable because it is important for both stakeholders and Ofcom that an appropriate level of assurance is provided on the RFS;
- b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
- c) proportionate because the audit requirements are no more than is necessary to ensure that an appropriate level of assurance is provided on the RFS; and
- d) transparent because the intention of our changes is to ensure that an appropriate level of assurance is provided on the RFS.

Charge Control and Reconciliation Report Direction

- 7.41 The proposed Charge Control and Reconciliation Report Direction sets out the materiality threshold for the CNN and would require BT to publish the impact of all material changes and errors each year with an accompanying assurance report from its regulatory auditors.
- 7.42 Changes to attribution methods or the correction of errors can affect all markets reported in the RFS. As a result, to preserve the integrity and consistency of the RFS, we consider that the CNN and reconciliation report should be subject to the same materiality threshold. Therefore, we propose to give the Reconciliation Report Direction in relation to BT in each of the proposed SMP markets as set out in Volume 7. This reflects our proposals set out in section 5 above in relation to materiality thresholds for the CCN and Reconciliation Report.
- 7.43 We consider that the proposed Reconciliation Reporting Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because in all markets it is necessary that there is visibility in relation to error corrections and methodology changes made in RFS, both for us and other stakeholders, and it is therefore necessary for us to specify the requirements in relation to the content of the reconciliation report and the accompanying audit opinion;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - c) proportionate because our proposals are no more than is required to provide visibility in relation to error corrections and methodology changes for us and other stakeholders; and
 - d) transparent because our proposals seek to provide visibility in relation to error corrections and methodology changes for us and other stakeholders and to provide BT with clarity about the requirements specifying the content of the reconciliation report and the accompanying audit opinion.

Ofcom's duties

- 7.44 As set out in Volume 1, we consider the package of proposed SMP conditions and related Directions both individually and together meet our duties in sections 3 and 4 of the Act.