

Statement of Change in Allocations for 21CN Costs in the 2013/14 Regulatory Financial Statements

This document sets out the methodology changes relating to WBA Markets that were reflected in the 2013/14 Regulatory Financial Statement (RFS) (published 15 August 2014).

This report has not been audited.

Key driver for change	Cost Causality
Trigger for change	Correction of Error and Improved Methodology
Description of change	<p><u>21CN Component Cost Allocations – Reduced WBA Unit Costs</u> The attribution of 21CN costs in the 2012/13 RFS did not take into account all the service volumes using the 21CN. It omitted Superfast Broadband (SFBB), TV Connect and Wholesale Content Connect (WCC) volumes, which were small in previous years but had grown in significance. These three services are reported within the Network Residual market.</p> <p>The volumes used to attribute 21CN costs were restated for 2012/13 to include the volumes of SFBB, TV Connect and WCC services, which had the effect of reducing the cost attributions to the services in Wholesale Broadband Access (WBA) Markets 1 and 2, and increasing the attribution to the Network Residual market.</p> <p><u>Implementation of Usage Factors to Ensure Comparable Service Volumes – Increased WBA Unit Costs</u> Volume data used in the 21CN allocation model for the 2012/13 RFS contained a mixture of actual bandwidth used (such as for WBC service volumes) and headline bandwidth sold (such as for downstream Ethernet service volumes). Costs were therefore not allocated using like for like volumes, with the services measured using headline capacity rates over allocated costs compared to the services measured using actual usage.</p> <p>To correct this issue, usage factors were applied to reduce the volumes of services such as downstream Ethernet and TV Connect so that they reflected actual utilisation. The net effect of this change was to increase the cost attributions to services in WBA Markets 1 and 2 and reducing the attribution to Network Residual market.</p> <p><u>Review of Service Volume Actuals – Reduced WBA Unit Costs</u> When modelling 21CN costs for 2012/13 RFS, a mixture of forecast and actual bandwidth volumes for services was used. We therefore restated the 2012/13 volumes to be consistent with actual volumes. The effect of this change was to reduce the cost attributions to services in WBA Markets 1 and 2, and increase the attribution to Network Residual.</p> <p><u>Ethernet Access Direct (EAD) – Increased WBA Unit Costs</u> EAD is an input to WBA services, which is used by Standard Broadband (SBB) services to connect from remote Multiservice Access Nodes (MSANs) to Ethernet Switch sites. EAD charges were, incorrectly, not included within the WBA markets in the 2012/13 RFS and we have corrected this.</p> <p><u>Core to Core Transmission – Reduced WBA Unit Costs</u> Our IPstream Connect and WBC products are designed to provide broadband access</p>

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	<p>including backhaul to the first available point of interconnect, i.e. the Broadband Remote Access Server (BRAS) which is located at the first 21CN core node.</p> <p>Transmission across the 21C core network is not included in the WBC product but the costs for core transmission were included in the 2012/13 RFS; we have now corrected for this error.</p>
Effect of the change	<p>The net effect of all changes was that WBA markets 1 and 2 saw a reduction in costs predominantly due to broadband 21CN costs being spread over a wider range of services.</p> <p>Residual markets including services such as SFBB, WCC and TV Connect were thus allocated a greater share of 21CN costs, in line with their usage of the network.</p> <p>Based on 2012/13 figures, the methodology changes resulted in £17m and £10m of FAC (including capital costs) moving from WBA Market 1 and 2 respectively primarily to Residual markets, with £5m moving into AISBO markets.</p>
Support for the change	<p>We have corrected for a number of errors and the revised figures more accurately reflect cost causation throughout the network.</p>
Key changes in accounting documents	<p>The changes did not require amendment to the DAM.</p>