Change Control Notification in accordance with SMP Condition 21 of Ofcom's Regulatory Financial Reporting Final Statement published on 20 May 2014

31 March 2015

Change control notification under SMP Condition 21 of Ofcom's Regulatory Financial Reporting Final Statement for the year ended 31 March 2015

Section 1

Introduction

Section 1.1 – Introduction

As a standard part of the process for producing and publishing Current Cost Financial Statements, each year we review our Accounting Methodology Documents, including the attribution and valuation methodologies set out in those Documents, to identify improvements that are superior to the prior year methodologies. We update the attribution and valuation methodologies, as set out in the Accounting Methodology Documents, to reflect changes in BT's organisation and structure, market changes, technological changes, changes in available data and regulatory changes, all to ensure that the Current Cost Financial Statements are as robust as possible. Our methodology changes and corrections are subject to stringent internal review. As part of this review we ensure compliance with the Regulatory Accounting Guidelines and Principles.

This Change Control Notification is published under SMP Condition 21 of Ofcom's Regulatory Financial Reporting Final Statement published 20 May 2014, in respect of all methodology changes that were implemented between the Current Cost Financial Statements for the year ended 31 March 2014 and the Current Cost Financial Statements for the year ended 31 March 2015. We include in the report our best estimation of the impacts to reported markets for each methodology change. These changes have not been calculated using our REFINE accounting system.

This Change Control Notification does not include the quantified effects of changing the following methodologies, as this would not be practicable:

- Impacts of Long Run Incremental Cost (LRIC) model changes

This Change Control Notification does not include the impacts of correcting material errors. The correction of material errors will be covered in the reconciliation report to be published by 31 July 2015 under SMP Condition 23 of Ofcom's Regulatory Financial Reporting Final Statement published on 20 May 2014.

This Change Control Notification is not a replacement for, nor should it be regarded as an alternative to, the published Current Cost Financial Statements for the year ended 31 March 2015. It is no more than a description of the methodology changes detailed in the Change Control Notification and an illustration of the impacts at a Market level, based upon 2013/14 data.

We recommend that this Change Control Notification is read in conjunction with our 2013/14 Detailed Attribution Methodology (DAM) document (note that this will be replaced in 2014/15 with our Accounting Methodology Documentation (AMD)) to ensure that all abbreviations, cost estimations and allocations, and descriptions are understood.

This Change Control Notification has not been audited.

Section 1.2 – Structure of the report

The Change Control Notification follows the structure and layout requested by Ofcom. A description of each section is provided below:

- Section 2 – provides the illustrative difference of methodology changes at a market level, for both operating costs and MCE changes.

- Section 3 – provides an explanation of the reported methodology changes.

- Appendices – Ofcom's Change Control Notification template and a glossary of commonly used abbreviations

Section 1.3 – Caveat applicable to Ofcom proposed changes

A number of the changes which we intend to make to our methodology have been proposed by Ofcom's consultation on Directions for Regulatory Financial Reporting published on 10 December 2014. In such instances we have implemented the changes noting that the following caveat applies:

"We are currently considering the extent of our challenge to this proposal. Our view is that we need to implement the proposal, even though we may challenge it; in light of the fact that should our challenge fail, we would need to comply with the Direction, pending an appeal (should we decide to appeal). Our implementation of this proposal should not be construed as an agreement to it."

Methodology changes where this caveat is applicable will have this noted in the "Support for the Change" section of the individual Change Control templates which follow.

We further note that on 30 March 2015 Ofcom published their final Directions for Regulatory Financial Reporting. We have implemented all proposals in this Change Control Notification based on requirements in the consultation document. Should there be changes required in the final report that we were not aware of, or instances where changes required in the final direction differ from those in the proposal, we would not be able to publish any such additional methodology changes, or amendments to our implementation of proposed changes, in this Change Control Notification. Should any further changes to our methodology be required by the final report, we will publish these separately in an addendum.

Section 2

Illustrative difference of methodology changes on costs and MCE allocated to each market

Section 2.1 – Illustrative difference of methodology changes on costs allocated to each market for published 2013/14 RFS figures

Figures in £m	Wholesale analogue exchange line services	Wholesale local access	Wholesale ISDN2 exchange line services	Wholesale business ISDN30 exchange line services	**Total Fixed Access Markets**	TISBO (up to and including 8Mbit/s)	TISBO (above 8Mbit/s up to and including 45Mbit/s)	TISBO (above 45Mbit/s up to and including 155Mbit/s)	Wholesale Regional Trunk Segments	Technical areas (Point of Handover)	AISBO non-WECLA	AISBO WECLA	MISBO non-WECLA	**Total Business Connectivity Markets**	Call origination on fixed public narrowband networks	Fixed call termination	Technical areas (Interconnect Circuits)	**Total Narrowband markets**	**Wholesale broadband access - Market A**	**Total reported regulatory markets**	Network Residual	Retail Residual	**Total All Markets**
2013/14 RFS market figures	1,345	861	58	72	**2,336**	228	13	14	10	4	359	32	36	**696**	110	93	25	**228**	**312**	**3,572**	2,211	14,278	**20,061**
Changes to market definitions to improve the consistency of the RFS with Ofcom market reviews	**(21)**	**519**	**-**	**-**	**498**	**(6)**	**-**	**-**	**(1)**	**-**	**19**	**2**	**9**	**23**	**-**	**(8)**	**-**	**(8)**	**(60)**	**453**	**(482)**	**29**	**-**
Methodology changes proposed by Ofcom directions to improve the consistency of the RFS with regulatory decisions	**(80)**	**(55)**	**0**	**(1)**	**(136)**	**11**	**1**	**2**	**0**	**0**	**(20)**	**(1)**	**(7)**	**(14)**	**6**	**6**	**2**	**14**	**(68)**	**(203)**	**101**	**0**	**(102)**
Methodology changes proposed by BT to improve the consistency of the RFS as a whole	**(23)**	**3**	**(2)**	**(2)**	**(24)**	**(5)**	**(0)**	**1**	**2**	**(0)**	**1**	**1**	**0**	**(1)**	**(8)**	**(5)**	**(0)**	**(11)**	**4**	**(30)**	**(15)**	**34**	**(1)**
Total effect of methodology changes	**(124)**	**467**	**(1)**	**(3)**	**338**	**(0)**	**1**	**2**	**1**	**0**	**(0)**	**2**	**3**	**9**	**(1)**	**(7)**	**2**	**(4)**	**(123)**	**219**	**(395)**	**64**	**(102)**
2013/14 RFS market figures reflecting all methodology changes	**1,221**	**1,328**	**57**	**69**	**2,674**	**228**	**14**	**16**	**11**	**4**	**359**	**34**	**39**	**705**	**109**	**86**	**27**	**222**	**189**	**3,789**	**1,816**	**14,342**	**19,947**

The full tables with references to the individual methodology changes in Section 3 are available here. The figures in these tables have not been corrected for rounding differences.

Section 2.2 – Illustrative difference of methodology changes on MCE allocated to each market for published 2013/14 RFS figures

Figures in £m	Wholesale analogue exchange line services	Wholesale local access	Wholesale ISDN2 exchange line services	Wholesale business ISDN30 exchange line services	**Total Fixed Access Markets**	TISBO (up to and including 8Mbit/s)	TISBO (above 8Mbit/s up to and including 45Mbit/s)	TISBO (above 45Mbit/s up to and including 155Mbit/s)	Wholesale Regional Trunk Segments	Technical areas (Point of Handover)	AISBO non-WECLA	AISBO WECLA	MISBO non-WECLA	**Total Business Connectivity Markets**	Call origination on fixed public narrowband networks	Fixed call termination	Technical areas (Interconnect Circuits)	**Total Narrowband markets**	**Wholesale broadband access – Market A**	**Total SMP Markets**	Network Residual	Retail Residual	**Total All Markets**
2013/14 RFS market figures	5,836	2,763	205	210	**9,014**	615	48	60	59	10	1,619	91	95	**2,597**	211	200	36	**447**	**483**	**12,541**	2,983	1,271	**16,795**
Changes to market definitions to improve the consistency of the RFS with Ofcom market reviews	**2**	**1,065**	**-**	**-**	**1,067**	**(24)**	**-**	**-**	**-**	**(6)**	**58**	**5**	**28**	**61**	**-**	**(16)**	**-**	**(16)**	**(92)**	**1,020**	**(1,029)**	**9**	**-**
Methodology changes proposed by Ofcom directions to improve the consistency of the RFS with regulatory decisions	**(506)**	**(226)**	**(15)**	**(30)**	**(776)**	**34**	**6**	**6**	**7**	**(0)**	**(74)**	**(4)**	**(4)**	**(30)**	**6**	**6**	**1**	**13**	**12**	**(781)**	**3**	**(41)**	**(818)**
Methodology changes proposed by BT to improve the consistency of the RFS as a whole	**(18)**	**37**	**(2)**	**(1)**	**16**	**(0)**	**0**	**0**	**6**	**(3)**	**(7)**	**9**	**(4)**	**2**	**(9)**	**(8)**	**(0)**	**(17)**	**8**	**9**	**(14)**	**(1,327)**	**(1,331)**
Total effect of methodology changes	**(521)**	**876**	**(17)**	**(31)**	**307**	**9**	**6**	**7**	**14**	**(9)**	**(23)**	**10**	**20**	**33**	**(2)**	**(18)**	**1**	**(20)**	**(71)**	**248**	**(1,039)**	**(1,359)**	**(2,150)**
2013/14 RFS market figures reflecting all methodology changes	**5,315**	**3,639**	**188**	**179**	**9,321**	**624**	**54**	**67**	**73**	**1**	**1,596**	**101**	**115**	**2,630**	**209**	**182**	**37**	**427**	**412**	**12,789**	**1,944**	**(88)**	**14,645**

The full tables with references to the individual methodology changes in Section 3 are available here. The figures in these tables have not been corrected for rounding differences.

These figures are our best estimation of the impacts of our intended changes to our methodologies. They do not take into account the cumulative effects of all of the changes made, as they are calculated in isolation.
The value of any given change could therefore be impacted by a subsequent or previous change which also impacts the same markets.

Section 2.3 – Summary of methodology changes with impacts to published 2013/14 RFS costs or MCE of less than £1m in any regulated market

This section reports a list of all methodology changes that do not individually have an impact of greater than £1m to any regulated market, based on published 2013/14 RFS operating costs or MCE. These methodology changes are described in Section 3. The numerical impacts of these papers are presented in aggregate in the tables in Section 2.2 – Illustrative difference of methodology changes on costs allocated to each Market for published 2013/14 RFS figures and Section 2.3 – Illustrative difference of methodology changes on MCE allocated to each Market for published 2013/14 RFS figures.

Changes which impact operating costs by less than £1m in any reported market

Ref	Paper title
3.9	Changes to deafness provision allocation
3.28	Excess Construction Charge cost component rationalisation
3.29	Supercomponent mapping
3.30	Changes to the cost allocations for Group Functions
3.31	Long Run Incremental Cost model update
3.32	Wholesale Broadband Connect internal and external volumes
3.33	Treatment of BT Group Central Business Services
3.34	Wholesale Broadband Access non-equivalence of input service rationalisation
3.35	RFS Eliminations and goodwill
3.36	Revenue and Volume data source for Openreach - Actuals Reporting Cube
3.37	Openreach reorganisation

Changes which impact MCE by less than £1m in any reported market

Ref	Paper title
3.12	Cumulo rebate allocation
3.13	Combined fault and service allocation – utilisation factor changes
3.14	Duct and Fibre allocations to 21CN
3.16	Group overheads allocation to overseas subsidiaries
3.18	Property sub-letting income & Facility Management cost allocations
3.21	Group methodology alignment – Flexible Resource Unit
3.22	BT TSO methodologies update and Organisational Unit Code changes
3.28	Excess Construction Charge cost component rationalisation
3.30	Changes to the cost allocations for Group Functions
3.31	Long Run Incremental Cost model update
3.33	Treatment of BT Group Central Business Services
3.34	Wholesale Broadband Access non-equivalence of input service rationalisation
3.36	Revenue and Volume data source for Openreach - Actuals Reporting Cube
3.37	Openreach reorganisation

Section 3

Explanation of reported methodology changes

Section 3.1 – Wholesale Broadband Access market structure

Type	Other – creation of new market structures
Key driver for change	Consistency with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We intend to change the RFS market structure for Wholesale Broadband Access (WBA) markets to the new structure defined by Ofcom in Wholesale Broadband Access Market Review (Jun 2014). In the new structure we will separately disclose Market A under WBA and Market B will not be separately disclosed but included in Network Residual. The new structure replaces the old structure where we disclosed Markets 1 and 2 in the WBA markets and Market 3 was not separately disclosed but was included within Network Residual. We will rename and remap the existing Market 1 services to Market A, the existing Market 3 services to Market B and we will delete the Market 2 services. The detailed cost allocation modelling will ensure that the market split between Markets A and B follows the list of exchanges by market provided by Ofcom in the Final Statement of the WBAMR.
Effect of the change	Market A is c19% smaller than Market 1 so this change will move c19% of the costs, revenue and MCE in the WBA markets to the Network Residual markets. Moving Market 2 to Market B will move revenue, costs and MCE from the WBA markets to Network Residual. This change is not visible in the table in Section 2 as Market B is presented aggregated into Network Residual, and Market 2 is not shown in the reported markets section.
Support for the change	This change will make the RFS consistent with Ofcom's market definitions as described in the WBAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	This change will impact the presentation of the WBA markets reported in the RFS. We will now report Market A within the WBA markets and Market B will not be disclosed but included within Network Residual. The Wholesale Catalogue will be updated to refer to Market A instead of Market 1.

Section 3.2 – Changes to the reporting of the Wholesale Line Access market

Type	Other – changes to market and service definitions
Key driver for change	Consistency with Regulatory Decisions
Trigger for change	Regulatory decision
Description of change	We intend to make significant changes to the reporting of the Wholesale Line Access (WLA) market: • We will move internal Shared Metal Path Facility (SMPF), Tie Cables and Metal Path Facility (MPF) into this market from Wholesale Residual.; • We will change the definition of Ceases, Co-Mingling and Tie Cables to align with price control baskets defined in the FAMR 2014; and • We will move Next Generation Access (NGA) services into the market from Network Residual. Revenues, volumes, costs and MCE for internally sold SMPF, MPF and Tie Cables will now be reported in the WLA market instead of in Network Residual. In the case of SMPF, we will directly transfer the services. In the case of Tie Cables, we will aggregate the Internal Tie cables and External Tie cable into one component and the costs will be allocated to internal and external services on the basis of volumes. For MPF, we will create new services and make some amendments to the attribution of components to ensure that costs are apportioned between internal and external services equivalently. We will change the definition of Ceases, Co-Mingling and Tie Cables to align with the new price control baskets defined in the Fixed Access Market Review (Jun 2014) (FAMR): • Co-Mingling New Provides and Rentals basket; • Tie Cables basket; • Hard Ceases basket; and • Other Local Loop Unbundling (LLU) Ancillaries basket. Our Co-Mingling services will now only include revenues costs and MCE relating to the services in the Co-Mingling New Provides and Rentals basket as defined by Ofcom. We will use existing components and services. Our Tie Cables services will only include revenues, costs and MCE relating to the services in Tie Cables basket as defined by Ofcom. We will use existing components and services. We will combine our existing services to SMPF Ceases and MPF Ceases and report a new Hard Ceases service to align with Ofcom's Hard Ceases basket. No new components are required. We will create new services for services defined by Ofcom in the LLU Ancillaries baskets: Tie Cable Modifications and Cancellation of SMPF and MPF orders. No new components are required. We will create new service and component for Electricity Charges to Co-Mingling tenants. The component will collect costs for the input electricity charge and for the costs of reading and maintaining the associated electricity meters. Our electricity allocation model and our BT Technology, Services and Operations (TSO) attribution bases will be amended accordingly. This service will be included in the WLA market but not disclosed separately. We will create a new service for Other Co-Mingling and Tie Cables for the revenues, costs and MCE of services that do not align to Ofcom's basket definitions. This service will be included in the WLA market but not disclosed. No new components are required.

	Revenues, volumes, costs and MCE for our NGA Products will now be reported in the WLA market instead of in Network Residual. These changes will mostly involve transferring existing services from Network Residual to the WLA market, with the exception that we will create a new service for Connection Provider to Connection Provider (CP to CP) migrations. The NGA services will be reported together in WLA as a single service, except for CP to CP migrations which will be reported separately as the service is now specifically price controlled.
Effect of the change	The reporting of internal SMPF, Tie Cables and MPF in the WLA market will move revenue, costs and MCE from Network Residual to WLA. The changes to service definitions will only move costs between services within the WLA market. The reporting of NGA services in the WLA market will move revenue, costs and MCE from Network Residual to WLA.
Support for the change	The reporting of internal SMPF, Tie Cables and NGA in the WLA market, and the separate reporting for Electricity Charges and CP to CP migrations are proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The changes are intended to make the RFS more consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	The WLA market reports in the RFS will be amended to include the new services. The Wholesale Catalogue will be updated to include the new services. A new Additional Financial Information (AFI) report will be created to disclose exact costs and revenues for electricity charges with reconciliation to the total revenues and costs reported in the WLA market. The AMD will be updated to reflect the new components. The consultation specifically proposes that we include a detailed explanation of how electricity charges are calculated.

Section 3.3 – Changes to the reporting of the Wholesale Analogue Exchange Line Services market

Type	Other – changes to market definitions
Key driver for change	More consistent with regulatory decisions; and More consistent with the RFS as a whole
Trigger for change	Regulatory decision
Description of change	We intend to create new services to align with the FAMR price control Service / Baskets: • WLR + SMPF Simultaneous Connections; • WLR + SMPF Simultaneous Migrations; • WLR Conversion; and • Caller Display. The WLR + SMPF Simultaneous Connections and Migrations services will use existing components including Hardware Jumpering. For this component we have followed Ofcom guidance as to how the Usage Factors for these services relate to Usage Factors already in use for Wholesale Line Rental (WLR) connections and SMPF connections/migrations. The WLR Conversion service will use existing components including Hardware Jumpering. For this component we have used the same Usage Factor as for MPF new provides for which the level of activity is similar. The new Caller Display service will include volumes, revenues, costs and MCE that were previously reported under Network Features in the Wholesale Residual market. In order to report the new service we will create a new component that will include costs and MCE previously included in the Network Features component.
Effect of the change	The inclusion of Caller Display in the Wholesale Analogue Exchange Line Services (WAELS) market will move costs from Network Residual to WAELS. The other changes mostly move costs between services within the WAELS market. The WLR + SMPF Simultaneous connection/migrations services will include revenues costs and MCE for services previously reported in the WLA market; there were no volumes for these services in 2012/13.
Support for the change	These changes are proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014) (DRFR). The changes make the RFS more consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	The WAELS market reports in the RFS will be amended to include the new services. The Wholesale Catalogue will be updated to include the new services. The AMD will be updated to reflect the cost allocations to the new Caller Display component.

Section 3.4 – Changes to the reporting of Internal Ethernet Backhaul Direct and Optical Network Backhaul Services

Type	Other – changes to market definitions
Key driver for change	More consistent with Ofcom market definitions
Trigger for change	BT judgement; and Regulatory decision
Description of change	We intend to report the revenue, costs and assets for internal sales of Ethernet Backhaul Direct (EBD) and Optical Network Backhaul Services (ONBS) in the same market as we report the external sales; these are the AISBO- WECLA, AISBO non-WECLA, MISBO WECLA and MISBO non-WECLA markets. The internal sales were previously included in Network Residual. To make this change we will create four new rentals services and four new connection services to over internal EBD/ONBS sales in each of the above markets. We will continue to use existing components.
Effect of the change	This change moves revenue, costs and MCE from Wholesale Residual to the Alternative Interface (AI) and Multiple Interface (MI) markets markets.
Support for the change	The inclusion of these services in the AI and MI is more closely aligned to Ofcom's definition of the markets in the Business Connectivity Market Review (Mar 2013) (BCMR) and so is more consistent with regulatory decisions. The inclusion of these internal services in the (AI and MI markets is also more consistent with the RFS as whole i.e. the proposed changes to the reporting of internal SMPF and MPF.

Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.5 – Changes to Non-Geographic Call Termination reporting

Type	Other – changes to market definitions
Key driver for change	More consistent with regulatory decisions
Trigger for change	BT judgement
Description of change	Ofcom's Narrowband Market Review (Sep 2013) (NBMR) determined that BT has designated SMP and accounting separation requirements in the Wholesale Fixed Geographic Call Termination market. The Non-Geographic Call Termination market is separately reviewed and BT is not subject to SMP regulation. However, for the purpose of the RFS the two markets have historically been combined and included within the Wholesale Fixed Call Termination market. We intend to remove non-geographic fixed call terminations from the Fixed Call Termination market and to reallocate the costs, assets and volumes to Residual markets, adding two new services: • Non-geographic fixed call termination • Openreach non-geographic fixed call termination (to capture Openreach voice backhaul costs)
Effect of the change	Costs will move from the Fixed Call Termination market to Residual markets.
Support for the change	The change will make the RFS more consistent with regulatory decisions in the WBAMR.
Key changes in accounting	The AMD will be updated to reflect the removal of non-geographic fixed call terminations.
documents	

Section 3.6 – Changes in the treatment of BT Retail costs - Telephone Directories

Type	Other – change in market definitions; and Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We intend to move the costs of providing telephone directories to WLR consumers from the WLR rentals service to Retail Residual. This change aligns the RFS with the FAMR regulatory decision to no longer include Telephone Directories in the WLR cost stack.
Effect of the change	The removal of telephone directories from the WLR cost stack will move costs and negative MCE from the WAELS market to Retail residual.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change is to make the RFS more consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.7 – Implementation of Regulatory Asset Valuation

Type	Change in valuation methodology
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We currently value our access copper cables and access duct assets on a current cost accounting (CCA) basis, using an indexed historic methodology. We intend to change the valuation methodology of access copper and duct assets from CCA to Regulatory Asset Valuation (RAV). The methodology is to be applied in full to copper cables. However the duct asset is common to both the Access network and the Core network. We will therefore only post a proportion of the RAV adjustment relating to duct which is relevant to the Access network. This will be implemented by adjusting the CCA valuation for duct to a RAV valuation within the activity group AG1135 'Duct' used by Access Cables. This activity plant group then apportions costs and asset values through plant groups and components to Access services.
Effect of the change	This change will reduce CCA depreciation and MCE for all service and components using access copper and access fibres. The Access markets that will be impacted are: WLA, WAELS, ISDN2, ISDN30, TISBO, AISBO and MISBO.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change is to make the RFS more consistent with regulatory decisions in the FAMR and BCMR.
	The caveat in section 1.3 applies to this change. The regulatory rational for the RAV in the FAMR and BCMR only applies to the access network, so we have not adjusted our duct valuation for backhaul and core duct.
Key changes in accounting documents	The AMD will be amended to reflect that the access duct and copper cable assets are re-valued using RAV.

Section 3.8 – 21CN future benefits allocation

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We no longer intend to use the 'future benefits' principle for allocating 21st Century Network (21CN) costs. The 21CN refers to our modern, Internet Protocol (IP) based, converged telecommunications network. The future benefits principle allocates 21CN costs to services currently carried on legacy networks on the basis that they, or a similar replacement service, will be carried over the 21CN in the future. This is based on the idea of incentivising the take-up of services on new 21CN technology rather than loading high costs and low volumes to the early 21CN based services. 21CN costs that are allocated to IPstream and Datastream on a future benefits basis will instead be allocated to Wholesale Broadband Connect (WBC) and residual WBA services such as Superfast Broadband and TV Connect. Similarly, the 21CN costs allocated to Wholesale Extension Services (WES), Backhaul Extension Services (BES) and Ethernet Access Direct (EAD) services on a future benefits basis will instead be allocated to Wholesale Residual Ethernet services. To implement this change we will amend our 21CN cost allocation model and make some minor changes to the 21CN plant groups and components.
Effect of the change	Removal of the IPstream and Datastream allocations will reduce costs in WBA Market A. The removal of costs from WES, BES and EAD will reduce AISBO non-WECLA and MISBO non-WECLA costs. Costs will instead be allocated to WBC (which has a greater presence in WBA residual markets rather than WBA Market A), and other residual WBA and Wholesale Ethernet services.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change is to make the RFS more consistent with regulatory decisions in the WBAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	The Wholesale Catalogue will be amended to remove 21CN costs allocated on a future benefits basis listed under 20CN services. The AMD will be amended to reflect the 21CN cost allocations.

Section 3.9 – Deafness provision allocation

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	BT has historically included a provision relating to claims for deafness arising from past use of copper line testing equipment by BT engineers. We intend to allocate these costs to a new Network Residual Miscellaneous plant group, from where they will be allocated to a new component and then to Network Residual. Previously these costs were allocated to the D-side Copper plant group.
Effect of the change	The change will move a credit to MCE from Fixed Access markets into Residual markets. There was no operating cost movement in 2013/14.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change makes the RFS consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies.
Key changes in accounting documents	The AMD will be amended to reflect the methodology for the new plant group and component.

Section 3.10 – Allocation of Digital Subscriber Line Access Multiplexer costs between Market A and Market B

Type	Other – reversal of 2012/13 methodology implementation
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Digital Subscriber Line Access Multiplexers (DSLAMs) are sited at the local exchange or concentrator sites and they enable the provision of broadband services over the copper access network. In 2012/13 we introduced a change that apportioned the costs between WBA markets based on an analysis of which costs are driven by the number of DSLAMs at each site and which costs are driven by the number of broadband subscribers connected at each site. We intend to reverse this methodology and revert back to apportioning the costs by the number broadband subscribers connected at each site.
Effect of the change	This change will reduce costs and MCE allocated to Market A from components: DSLAM Overheads and DSLAM Depreciation. There will be a corresponding increase in Market B.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change is to make the RFS more consistent with regulatory decisions in the WBAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	Entries in the AMD for the components CR188 'DSLAM Overheads' and CR189 'DSLAM Depreciation' will be changed to reflect that DSLAM costs are apportioned by the number of broadband subscribers connected at each site.

Section 3.11 – Testing Access Matrix system and Evolutionary Testing Access Matrix System asset life changes

Type	Other – change in asset life; and Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision; and BT judgement
Description of change	The two types of Testing Access Matrix systems (TAMS) have different lives in BT's statutory accounts. Evolutionary TAMS (EvoTAMS), used for internal SMPF lines, have a seven year life and TAMS, used for MPF lines, have a five year life. We intend to make an accounting adjustment in RFS to change the regulatory asset lives of TAMS so that both variants have a seven year life. This change will not be reflected in the 2014/15 statutory accounts. We also intend to change the allocation of EvoTAMS cost so that they are apportioned to WBC instead of SMPF. These changes will make the allocation more consistent with regulatory decisions in the FAMR where Ofcom said that it was not appropriate to include these costs in the SMPF cost stack.
Effect of the change	Changing the regulatory asset life will reduce the deprecation of TAMs and increase capital employed for the TAMs component which in turn will impact the MPF rentals service in the WLA market. Changing the allocation of EvoTAMS will reduce the costs and MCE of the SMPF rentals service in the WLA market with corresponding increases in the WBC rentals service in WBA markets A and B.
Support for the change	The change to the TAMS regulatory asset life is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change is to make the RFS more consistent with regulatory decisions in the FAMR. Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014) proposed that the EvoTAMs costs should be moved away from SMPF and recommended we move the costs to residual. We advised Ofcom of our intent to move the costs to WBC in our response to the Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The caveat in section 1.3 applies to these changes.
Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.12 – Cumulo rebate allocation

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Cumulo rates are the non-domestic rates we pay on our UK rateable network assets. We intend to change the allocation of Cumulo rates to be consistent with regulatory decisions taken in the FAMR. We will make two changes to our allocations: • Rebates will be treated in the same way as the gross payments; and • The asset valuations used in the calculation will be updated to current values. We receive a rebate for the loss of revenue resulting from the migration of customers to MPF lines. This rebate was previously apportioned in such a way that it was not allocated to copper lines, but we will now apportion the costs in exactly the same way that we apportion the gross charges. The apportionment methodology basis for the gross Cumulo rates charge is Profit Weighted Net Replacement Costs (PWNRCs). This methodology apportions the charge to activity groups and plant groups in proportion to the profit that the rateable assets are able to generate. This is calculated by weighting the net replacement costs (NRC) by the average return on capital employed for each rateable asset. We now intend to use the most up to date available information for NRCs and profit weightings. For the 2014/15 RFS we will use '2014/15 mean NRC' and profit weightings calculated from the 2013/14 RFS. Our previous methodology had been to use the NRCs and profit weightings that were agreed with the Valuation Office for the current rateable asset valuation.
Effect of the change	The change in the allocation of the rebates will decrease the costs for the Access Copper markets (WLA, WAELs and ISDN) and increase costs in the Business Connectivity markets, the Narrowband markets and the Wholesale Broadband markets. The updates to NRCs and Profit Weightings will cause small increases for fibre based services and markets and small decreases for copper based services and markets.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change makes the RFS consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	The AMD will be updated to reflect the new methodology for the base CUMRBTE 'Unbundling driven reductions to BT's Cumulo Rates liabilities'. The bases CUMNORM 'BT's Cumulo rates liabilities' and ORCUMNOR 'Openreach Cumulo normal' will need to be amended to reflect that the most up to date available information for NRCs and profit weightings will be used to apportion the Cumulo charge.

Section 3.13 – Combined fault and service allocation – utilisation factor changes

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We intend to change our component usage factors for copper repair components to those proposed by Ofcom in their Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The usage factors relate to a combination of fault rate and service level and apply to the following components: D-side Copper Current, E-Side Copper Current, Local Exchanges, Residential Public Switched Telephone Network (PSTN) Drop Maintenance and DSLAM Capital /Maintenance. We already use combined usage factors for these components. Our current usage factors are similar to those proposed by Ofcom.
Effect of the change	This change will move a small amount of costs from WAELS to WLA.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change is to make the RFS more consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.14 – Duct and Fibre allocations to 21CN

Type	Change in allocation basis
Key driver for change	More complete; More accurate; and More consistent with regulatory decisions
Trigger for change	BT judgement; and Regulatory decision
Description of change	Currently we apportion backhaul fibre and core fibre to a total of five 21CN plant groups. As a result of Ofcom's Cost Allocation Review two issues have been highlighted to us: • We have not allocated any duct to these 21CN fibre plant groups; and • These plant groups can be readily defined as being part of either the backhaul network or the core network, but we have allocated both backhaul fibre and core fibre cost to each plant group. We intend to make three changes to address these issues: • Backhaul fibre will now be allocated wholly to the Backhaul Fibre plant group and Core Fibre will be allocated wholly to the Core Fibre plant group. This will resolve the duct allocation issue since these plant groups already receive an appropriate allocation of duct costs. • We will change our plant group to component apportionment so that it is allocated to 20CN components and 21CN components based on the volume of fibre kilometres. This is the same method as we used previously to apportion costs from class of work to plant group. • We will amend the allocation of Backhaul Fibre and Core Fibre plant groups so that they only apportion to components that relate to the in the corresponding part of the network.
Effect of the change	The net impact of these changes will be to move costs and MCE from 20CN services to 21CN services. More Duct costs will now be attributed to 21CN services, which are mostly in the network residual market but also include EBD in the AISBO and MISBO markets. There will be a corresponding reduction to Duct allocations to markets using the 20CN backhaul and core networks, principally the TISBO markets but also the Narrowband markets and main links in the AISBO and MISBO markets. Less Fibre will be attributed to 21CN services and more costs will be attributed to services using the 20CN network, principally TISBO and main links in the AISBO and MISBO markets.
Support for the change	These issues were identified during Ofcom's current Cost Allocation Review. Ofcom have required us under their Section 135 powers to provide adjusted information for use in their modelling for the Leased Lines Charge Control. The mapping of fibre costs to 21CN backhaul and core networks aligns with the definition of those networks in BT's Undertakings to Ofcom, 2005.
Key changes in accounting documents	The AMD will be updated for the changes in allocation of backhaul fibre and core fibre.

Section 3.15 – IPStream volumes and reporting

Type	Other – changes to reporting formats
Key driver for change	Consistency with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Following discussions with Ofcom regarding the reporting of WBA in the 2014/15 RFS, we intend to create additional services in order to comply with their proposals for WBA, and to be able to reconcile our compliance statements to their charge control sub caps and to the RFS. The changes we intend to make and the services impacted are as follows: • We are required to report IPstream Connect Max and Max Premium but not IPstream Home and Office. All IPStream Connect services are currently recorded within the IPstream end user and bandwidth services in Market A and B. • We are required to separate out Connections reporting by service whereas currently we publish Connections in aggregate for WBC, IPstream and Datastream. • We are required to separately report Migrations, Regrades and IPstream Connect ADSL Cancellations; these are not currently charged to a single service in REFINE. • Other IPstream is required to include the EU bandwidth charge per month; this is currently within the IPstream bandwidth service.
Effect of the change	The impact of the changes will be to decrease IPstream services within Market A by approximately 2%. The overall impact at a market level will be lower (decreasing overall market costs by c1%) due to other Market A services not being affected, such as WBC. Costs and MCE will move from Market A to Residual markets.
Support for the change	The change is driven by discussions with Ofcom regarding the reporting format for the 2014/15 RFS and the new service baskets required for the WBA compliance statement. We expect Ofcom to formalise this requirement in their final Reporting Direction. The caveat in Section 1.3 applies to this change.
Key changes in accounting documents	The AMD will change to update published services referenced in the EOI section. The Wholesale Catalogue will be updated for the new list of published WBA services.

Section 3.16 – Group overheads allocation to overseas subsidiaries

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We intend to attribute a proportion of the costs of the BT Group: Tax, Strategy and Group Financial Control teams to overseas subsidiaries to reflect that an element of the activity of these functions is driven by these overseas subsidiaries. The calculation will be based on the proportion of average total overseas employees to average total employees (around 20:80). The overseas proportion will be allocated to Residual markets with remaining allocated to activity group AG112 'Corporate Costs'. However, the Ofcom Administration Fee is recorded in the Strategy unit, but only relates UK activities, so we will continue to allocate this specific cost wholly to AG112. The previous methodology for all costs in this unit was to allocate them solely to AG112. They were apportioned to Retail Residual activity and plant groups, in proportion to UK based FTE and asset values (weighted by the regulatory cost of capital).
Effect of the change	The new methodology will move costs primarily from Fixed Access markets into Residual markets.
Support for the change	This change is proposed by Ofcom's Consultation on Directions for Regulatory Financial Reporting (Dec 2014). The change makes the RFS consistent with regulatory decisions in the FAMR. The caveat in section 1.3 applies.
Key changes in accounting documents	The AMD will be updated to show new attribution bases for Group Financial Control (CFH), Group Tax (CFW) and Group Strategy and Planning (CO).

Section 3.17 – Changes in the treatment of BT Retail costs - Organisational Unit change

Type	Change in allocation basis; and Other – change in Organisational Units
Key driver for change	More complete
Trigger for change	Other - change in BT Organisation
Description of change	Organisational Unit Codes are used to determine which part of BT's management structure an individual or team belongs to. We intend to change our RFS costs allocation methodologies to take account the re-organisation of BT Retail into BT Consumer and BT Business. This change requires us to map the Organisational Unit Codes (OUCs) for: • BT Consumer (OUC S) - will be attributed to Retail Residual • BT Business (OUC H) - elements for Northern Ireland Operations, Operator Assistance and BT Fleet will attributed to plant groups and the remaining costs will be attributed to Retail Residual.
Effect of the change	The change in allocation methodologies to reflect the new BT Consumer and BT Business organisation will have a minimal financial impact to regulated markets.
Support for the change	The change in treatment of Retail costs is necessary to reflect the new BT organisation.
Key changes in accounting documents	The old OUC mapping will be replaced with new OUC mapping.

Section 3.18 – Property sub-letting income and Facility Management cost allocations

Type	Change in allocation basis
Key driver for change	More consistent
Trigger for change	BT judgement; and Other – Ofcom's Cost Allocation Review
Description of change	We intend to reallocate the following cost lines to AG106 - Group Property and Facilities Management to be consistent with how we treat similar costs in the RFS: • Other Operating Income (OOI) for property sub-letting; these costs are currently allocated to Retail Residual; and • A small amount of Facilities Management (FM) costs which are currently apportioned to AG112 Corporate Overheads. This change is in response to issues highlighted by Ofcom's ongoing Cost Allocation Review.
Effect of the change	OOI is reported in the RFS as a credit to costs, so the impact of moving OOI from Residual to AG106 will be to reduce costs in regulated markets. The change in treatment of FM is small.
Support for the change	Ofcom's on-going Cost Allocation Review has highlighted that the treatment of Other Operating Income related to property sub-letting and certain Facilities Management costs is inconsistent with the treatment of similar costs. Our proposed treatments are more consistent with the treatment of the RFS as a whole.
Key changes in accounting documents	There will be no changes to accounting methodology documents as neither item is sufficiently material to be specifically mentioned in the documents.

Section 3.19 – Featurenet volumes reclassification

Type	Other – change in market definition
Key driver for change	More consistent with regulatory decisions – Ofcom's definition of TISBO markets in the BCMR
Trigger for change	BT judgement
Description of change	We intend to reclassify circuits used by our Featurenet products so as they are reported in Network Residual instead of being a downstream user of Low Bandwidth TISBO circuits. In the case of 2MB circuits: revenues, volumes, costs and assets for these circuits will be moved to residual from the TISBO Low Bandwidth 2Mb services and the associated trunk services in the Trunk Regional market. In the case of 64k access circuits we remove revenues and volumes from the Low Bandwidth but will not adjust costs and assets as they are already being accounted for the WLA market as internal MPF. Featurenet is a virtual private network that carrying voice traffic and providing cusotemrs with Private Branch Exchange (PBS) functionality such as call diversion, call forwarding etc. This is not a private circuit product so it falls outside of Ofcom's definition for the TISBO markets.
Effect of the change	This change moves revenues, volumes, cost and MCE from Low Bandwidth TISBO and Trunk to Network Residual.
Support for the change	This change makes the RFS more consistent with regulatory decisions as Featurenet is not a not a private circuit product so falls outside of Ofcom's definition for the TISBO markets.
Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.20 – BT TSO Electricity – new methodology for Public Switched Telephone Network

Type	Change in allocation basis
Key driver for change	More complete; and More accurate
Trigger for change	BT judgement
Description of change	The TSO Specialised Electricity model is used to allocate the TSO electricity costs to plant groups and products. The model looks at each platform in the network and estimates the power consumption of the equipment within that platform. Each platform can have a number of data sources to derive the power consumption. Some of the power assumptions required updating. We intend to apply a new simplified methodology for the calculation and apportionment of electricity consumed by the PSTN platform. The methodology is based on the model that BT TSO uses for PSTN power planning. These power assumptions take account of all lines, including non-working lines and are based on sample meter readings.
Effect of the change	The new methodology will reduce the total power attributable to PSTN equipment. There will be a reduction to costs allocated to Narrowband and Fixed Access markets. The offsetting increase will be in WBA, low TISBO, WLA and Residual markets.
Support for the change	The change was required following feedback from the 2013/14 audit that some of the assumptions were out of date. The new assumptions are those used by power planning and therefore represent the best information available to us.
Key changes in accounting documents	We do not intend to change the AMD entry for the BT TSO electricity model as it does not contain details of the specific methodologies for each platform.

Section 3.21 – Group methodology alignment – Flexible Resource Unit

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	The Flexible Resource Unit (FRU) was a new unit created in 2013/14. The FRU is used by lines of business (LOBs) to procure skilled internal people to work on short to medium-term projects. In the RFS we currently allocate the costs relating to the FRU to the activity group AG112 'Corporate Costs'. We intend to change this treatment to one where we apportion the costs to LOBS in proportion to the internal billing data and then to plant groups and Retail Residual in proportion to the pay costs within each LOB.
Effect of the change	This change will primarily move costs from Fixed Access markets to Residual markets.
Support for the change	Our proposed methodology is more cost causal since it takes account of which LOBs are using the resource.
Key changes in accounting documents	The AMD will be updated to show the revised attribution base for the FRU.

Section 3.22 – BT TSO methodologies update and Organisational Unit changes

Type	Change in source data; and Change in allocation basis
Key driver for change	More complete; and More cost causal
Trigger for change	BT judgement
Description of change	Following our annual review of BT TSO cost allocations we intend to make three minor changes: **BT TSO Contracts and Products in Life (CPIL) function** A summary of this team's function and the cost apportionment methodology used is described in the 2014 DAM under the attribution base TA. We will continue to apportion these costs between LOBs based on the BT TSO internal billing information but the management information that we referred to in the DAM as "BT TSO Resource Planning data & analysis" is no longer produced. We intend to apportion the proportion of costs attributable to Openreach to the activity group: AG401 'Openreach Pay Driver' and the proportion attributable to BT Wholesale to the activity group: AG406 'BT Wholesale Pay Driver'. The costs in these activity groups will then be apportioned to plant groups in proportion to previously allocated Openreach and BT Wholesale Pay. **Creation of new function called: Estates Infrastructure Plan and Build (EIPB).** This team has been created from the Power and Radio team and the Exchange Infrastructure Plan & Build team, a summary of the functions and cost allocation methodologies for both teams are described in the 2014 DAM under the attribution base TB. We intend to apportion the costs of this team to activity groups and plant groups using an analysis of the team activities from a management information report called Estate Engineering Services (EES). There are small differences to the activities shown for the combined team compared to the analyses used for the individual teams taken from BT TSO Resource Planning data & analysis. **Creation of new attribution bases for OUCs TK and TX** TK is a new function: Chief Information Office (CIO) for BT Consumer. These costs will be allocated to Retail Residual. TX is an accounting OUC used for central contingencies; we intend to allocate these costs to AG103 BT TSO Support Functions in the same we do for similar OUCs.
Effect of the change	The most significant of these changes is the use of EES data to apportion the costs of the combined EIPB team. This change will result in more costs being apportioned Co-Mingling in the WLA market and costs moving from the TISBO markets to the AISBO market. However we note that these impacts have been calculated by comparing October 2014 EES data to the 2013/14 apportionments, so will also include changes in activity during the period.
Support for the change	The first two changes are required following changes to data sources.

	The third change is required following a business reorganisation.
Key changes in accounting documents	All relevant BT TSO attribution bases will be updated to reflect the changes to CPIL, Power and Radio and EIPB allocation. New attribution bases will be added for BT Business CIO (OUC TR).

Section 3.23 – Broadband Development UK funded investments

Type	Change in allocation basis
Key driver for change	More consistent with the RFS as a whole
Trigger for change	BT judgement
Description of change	We receive government grants for capital and operating cost investment in Broadband Delivery UK (BDUK) sponsored rural areas of the UK. We intend to create a new plant group and component to separately account for capital and operating expenditure in BDUK areas and the offsetting grants received. However, not all our investment in BDUK areas is refunded by the grants and the net investment is apportioned to Fibre to the Cabinet (FTTC) services. Previously, the expenditure and grants relating to capital investment were attributed treated in the same way, but they were included in the FTTC Development component. The smaller amount of operating cost expenditure and related grants was previously identified in the RFS. They were treated as Openreach indirect costs and apportioned across all Openreach components and services.
Effect of the change	There is no change to the apportionment of capital expenditure and grants but they will be reported against a new component. The change in the treatment of operating expenditure and grants will move costs from all Openreach services, but primarily the copper based services in WLA and WAELS markets, to NGA services now reported in the WLA market.
Support for the change	The creation of a new plant group and component makes the reporting of BDUK funded NGA investment in the RFS more transparent within REFINE. The new treatment of the operating costs and related grants is more accurate and more cost causal.
Key changes in accounting documents	The AMD will be updated to reflect the new plant group and component.

Section 3.24 – Rebuild of the 21CN cost allocation model

Type	Change in allocation basis; and Other – improvement of model mapping to data sources
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	The 21CN refers to our modern, Internet Protocol (IP) based, converged telecommunications network that carries higher bandwidth broadband service traffic such as Wholesale Broadband Connect, superfast broadband and TV Connect, as well as Ethernet services such as Harmonised Ethernet and Managed Ethernet Access Services (MEAS). Costs and assets relating to this network are apportioned in the RFS using the 21CN cost allocation model. The 21CN cost allocation model maps 21CN network elements to plant groups, and then apportions them to components and services based on product volumes and an assumption regarding their use of bandwidth in different parts of the network. We have rebuilt the 21CN allocation model using more up-to-date and more robust input data, more supportable assumptions and we have refreshed the network mappings. These changes will improve the data flow and accuracy of the outputs of the 21CN model.
Effect of the change	The net impact of the changes in the new model will be to move costs from WBA Market A and AISBO markets into Network Residual.
Support for the change	We have received feedback from our auditors that the old model required refreshing.
Key changes in accounting documents	The AMD will require all 21CN entries to be re-written to reflect updated COW to plant group and plant group to component mappings and assumptions. We also intend to improve the descriptions of allocation methodologies.

Section 3.25 – Changes to cost codes and sector mappings

Type	Other – change in allocation basis
Key driver for change	More accurate; and More cost causal
Trigger for change	BT judgement
Description of change	We use F8 codes to group similar general ledger codes into bundles which are used specifically for regulatory reporting. Sectors are cost categories that used internally by BT and these changes to not impact the cost categories in the published RFS. We intend to make the following changes to the mapping of F8 codes to sectors : • DSLAM assets will be mapped to Miscellaneous Capital sector instead of the Copper Cable sector; • Transmission Assets will be mapped to a new sector to be called Transmission Electronics instead of the Transmission Cable and Other sector; and • Accounting adjustments for third party electronics will be mapped in the Transmission Electronics sector instead of the Capital Miscellaneous sector. The first two changes will change the calculation for the apportionment of AG102 'BT TSO Managed Assets' to other activity groups, plant groups and Retail Residual in proportion to core assets. Core assets are defined as total fixed assets less duct, copper cable, fibre cable, land and buildings, vehicles and office machinery. This apportionment is automated and is calculated by analysing fixed assets but excluding certain sectors. There are benefits from this simple application but it is limited by issues in the mapping of assets to sectors. The sector for copper cables is excluded but it also includes broadband DSLAMs and the sector for core and backhaul cables is excluded but also includes transmission electronics. Our proposed change will resolve these issues and make the apportionment of AG102 more cost causal. Following from the above change, in the RFS we identify third party equipment depreciation and report it on a separate line in the TISBO markets. This depreciation is calculated by taking revenue for third party equipment and calculating the depreciation based on an asset life of four years. The third change does not impact cost allocations at all but it has an impact on the calculation of LRICs and DSACs. Our asset values for transmission electronics include equipment on third party premises for which the costs have already been recovered in a connection charge. To account for these assets and to ensure that they are not recovered twice, we make an adjustment to our deprecation and asset values for these assets. The transmission assets and accounting adjustments are currently mapped to different sectors so they are assigned different cost volume relationships in our LRIC model. This causes distortions in the calculation of LRIC and DSACs for services using transmission electronics. Our proposed change will resolve this issue and make the calculation of LRIC and DSAC more accurate.
Effect of the change	The change in the calculation of AG102 will apportion more costs to services using DSLAMs, in WBA Markets A and B, and more costs to services using transmission electronics, principally in the TISBO market. The change in sector for third party equipment accounting

	adjustments will not impact the reporting of costs and MCE.
Support for the change	These changes have been identified as part of an internal review and following the implementation of the REFINE system. These changes increase the accuracy of the RFS and improve cost causality.
Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.26 – Review of BT Wholesale Managed Services cost allocations

Type	Change in allocation basis
Key driver for change	More complete; More accurate; and More objective
Trigger for change	BT judgement
Description of change	We have reviewed the cost allocations for the BT Wholesale Managed Services unit (OUC: KB) and we intend to adopt a step approach to allocating these costs: • We will use a Full Time Equivalents (FTE) activity analysis, provided by managers within the team, to determine the proportion of costs to be apportioned to each contract. • We will apportion the costs of each contract to product groups in proportion to the revenue analysis for each contract. Previously we had allocated these costs based on a 2010/11 analysis of their activity.
Effect of the change	The old unit was apportioned to the TISBO markets and to Residual. The costs will now also be apportioned across a wider set of markets but principally between the WBA and Residual markets.
Support for the change	The FTE activity analysis shows which contracts are supported by the team so the apportionment is will be more cost causal.
Key changes in accounting documents	The AMD will be updated to reflect the new methodology for the KB attribution base.

Section 3.27 – Moving 64Kbit/s Trunk out of Low TISBO into Trunk

Type	Other – change in market definitions
Key driver for change	More consistent with regulatory decisions
Trigger for change	BT judgement
Description of change	We intend to introduce regional and national trunk services for 64Kbit/s TISBO services. In the BCMR, Ofcom separated trunk into regional and national markets and they removed regulation for the Trunk market as one operator had SMP in this market. We introduced a methodology change in 2013/14 to separate the Trunk market into National and Regional. This change covered all the services reported in the Trunk market at that time and covered 2Mbit/s, 34/45Mbit/s, and 140/155Mbit/s services. Historically we have reported 64kbit/s circuits in the Low TISBO bandwidth market because these circuits are carried over a network of pre-provided 2Mbit/s circuits so there is no physical distinction between distribution and trunk. We now intend to allocate costs between distribution, regional trunk and national trunk services based on billing data.
Effect of the change	There will be no changes at component level. Costs for 64Kbit/s trunk will move out of the Low TISBO Market into the Wholesale Regional Trunk market and Residual markets.
Support for the change	This change is more consistent with the BCMR which defines the Regional and National Trunk markets as including 64Kbit/s services.
Key changes in accounting documents	The RFS will be updated to include 64Kbit/s services in the Regional Trunk market. The Wholesale Catalogue and the AMD will be updated to include the new Regional Trunk and National Trunk circuits.

Section 3.28 – Excess Construction Charge cost component rationalisation

Type	Other – alignment of cost adjustments
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	We intend to make three changes to our accounting for Excess construction charges (ECCs): • We will reduce the number of components used from 16 to two; • We will re-map the costs journal from the sector Capital Miscellaneous to the fibre and duct sectors; and • We will allocate a proportion of the costs to connection services. Excess construction charges are levied when the capital investment required to provide a new connection exceeds a specified threshold. In these cases, the costs are recovered up-front in an excess construction charge. The costs incurred in providing these new connections are capitalised in the same way as for normal network construction i.e. under the classes of work for fibre and duct. This means that our duct and fibre costs include costs that have already been recovered from customers as an ECC. In preparing the RFS, we raise a journal that credits depreciation and MCE that is reported against AISBO, MISBO and TISBO services, and we debit depreciation and MCE for specific ECC services. This journal is processed by allocating the credit to 14 components and the debits to two specific components that are pointed to ECC services. We intend to reduce the number of specific components used for ECCs by allocating the journal credit directly to the components that hold the duct and fibre costs. We will now process the journal in two parts, one for duct and one for fibre and these two parts will be mapped to the Duct and Fibre sectors. Currently the journal is mapped to the sector Capital Miscellaneous which means that in calculating the LRIC and Distributed Stand Alone Costs (DSACS) for AISBO and TISBO services, the credits are treated with a different cost volume relationship to the costs that they are being credited against. The third change we intend to make is to raise an additional credit to move £548 of fibre and duct capital investment from the fibre and duct components to AISBO and MISBO connection services. This change is to align with Ofcom's Direction on Excess Construction Charges for Openreach Ethernet Access Direct (May 2014) to raise the threshold for the application of ECCs but to include an additional £548 in the connection price.
Effect of the change	Moving to a reduced number of components is only intended to be a simplification in our methodology allocations but in practice it has a financial impact because we have not previously mapped the credits to all services using fibre and duct. The changes will impact MCE, and are more pronounced on specific services than on the markets as a whole. The remapping of the journal to duct and fibre sectors will not impact the reporting of costs and MCE but it will have the effect of increasing LRIC costs and reducing DSAC costs for AISBO, TISBO and MISBO access rental services. The additional journal to move depreciation and MCE to connections will not have an impact on 2013/14 numbers since the new connection prices were only implemented during 2013/14.

Support for the change	This change will improve transparency in the treatment of ECCs, improve the accuracy of LRICs and DSACs, and is more consistent with the regulatory decision to increase the ECC threshold.
Key changes in accounting documents	The RFS will now report some of the ECC debits for fibre and duct construction against connections services in the form of a note to the accounts disclosing the additional "estimated matched costs" in similar way to how we currently report ECCs. The AMD will be updated to reflect changes to ECC components. The Relationships and Parameters (R&P) document will be updated to reflect the treatment of the journals in our LRIC model.

Section 3.29 – Super-component mapping

Type	Other – change to reporting structure
Key driver for change	More accurate; More objective; and More consistent with regulatory decisions
Trigger for change	BT judgement; and Regulatory decision
Description of change	The current distinction between components and super-components introduces an extra level into our reporting system and adds complexity into preparing the RFS. We intend to simplify the regulatory reporting structure between components and published super-components by combining the two levels to create a one-to-one mapping where possible.
Effect of the change	This change will: • Remove publication requirements for 12 super-components that fall only into calls and ISDN2 markets (as service level publication no longer applies) plus directories; • Remove the publication requirement for the 'pair gain' super-component, which is now immaterial. • Rename 29 components where the existing names are out-of-date and/or internally inconsistent; and • Split certain super-components into underlying components where the current aggregation is not logical (adds 17 super-components). There will be no impact to reported markets. There will be no change to underlying costs or their allocation, only to the reporting structure of the components and super-components.
Support for the change	By minimising the difference between the component and super-component list it is anticipated that RFS production and Section 135 response times can be reduced. We are currently discussing this proposal with Ofcom. The caveat in section 1.3 applies to this change.
Key changes in accounting documents	Changes will be made to the structure of the Network Activity Statement (Annex 15), BT Network Services Reconciliation (Annex 17), and Section 7 calculation of Fully Allocated Costs (FAC) based on component costs and usage factors (Annex 16). The AMD will be updated to reflect the new super-component structure.

Section 3.30 – Changes to the cost allocations for Group Functions

Type	Other – BT reorganisation
Key driver for change	More complete
Trigger for change	Other – BT reorganisation
Description of change	Following an annual review of the cost allocations for BT Group Functions we intend to make changes that reflect business reorganisations. As part of a BT re-organisation, BT Fleet will move out of Group Functions and into the BT Business organisation. We intend to amend our methodologies so that the cost allocation process will work in the same way as before. We also intend to amend our methodology for BT Security. Our methodology is to use BT Security's internal billing information to identify how much costs they recover from each LOB. We then use an appropriate driver for each LOB to allocate costs to plant groups. In most instances this driver is the pay costs for that LOB. In 2014/15 BT Security have raised a bill to BT Group. We have not previously stated our methodology for costs for security costs incurred on behalf of BT Group, but intend to apportion this proportion of BT Security costs to the activity group: AG112 'Corporate Costs'. This is consistent with how we treat other corporate costs.
Effect of the change	There will be no market impacts.
Support for the change	As a consequence of the business re-organisation of BT Fleet into BT Business, REFINE must be updated with the correct treatment.
	Billing data shows trades going to BT Group, which need to be reflected in allocations.
Key changes in accounting documents	The AMD entry for BT Fleet will be updated to reflect that the methodology will now be applied to OUCs H3 & HL.

Section 3.31 – Long Run Incremental Cost model update

Type	Other – amendments to LRIC model
Key driver for change	More accurate; More cost causal; and More consistent LRIC outputs as a whole
Trigger for change	BT judgement; and Regulatory decision
Description of change	We are proposing to change the LRIC model as follows: • Correct the cost mapping of fully allocated costs into the LRIC model to ensure that similar costs are mapped into the same LRIC cost category to they are treated consistently; • Adjust LRIC input costs to re-allocate specific cost credits to match the corresponding debits; • Changing the relationship between “cost category” and “cost volume relationship” to correct for mis-mappings and thus ensure consistency; and • Change the “dependency drivers” for nine cost categories, to avoid inconsistent LRIC calculations.
Effect of the change	The changes will affect Distributed LRICs ((D)LRICs) and DSACs for a wide range of components (reflecting the nature of changes made and the extent of cost sharing in the LRIC model). It will also affect the calculation of (D)LRIC and DSAC for regulated services. Generally the effect will be to increase LRICs and to reduce DSACs. To note the changes affect only (D)LRIC and DSAC numbers, and not fully allocated costs. We have not reflected the impacts of this paper in the tables in Section 2.
Support for the change	Since May 2014, we have engaged extensively with Ofcom to review certain outputs and assumptions used in LRIC modelling. At Ofcom’s request, we have re-stated the LRIC model for 2012/13 and 2013/14. We also conducted our own review of certain LRIC assumptions and we intend to apply these changes to 2014-15 RFS.
Key changes in accounting documents	We will change the LRIC Relationships and Parameters document as follows: • Appendix 1 – Cost Categories: specifically to change the mapping between cost categories and cost volume relationships • Appendix 4a – Mapping of F8 code to cost categories • Appendix 4b –Mapping of cost categories to F8 code • In relation to appendix 4a and 4b, we shall explain the nature and basis of the re-allocation of credits to match the debits

Section 3.32 – Wholesale Broadband Connect internal and external volumes

Type	Other – changes to internal / external classifications
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	WBC is a service sold by BT Wholesale as a stand-alone product but is also an input to their Wholesale Broadband Managed Connect (WBMC) service. We intend to change the classification of internally sold and externally sold WBC volumes and we will now consider WBMC as an internal downstream user of WBC. All WBC volumes used by WMBC will now be classified as “internal” regardless of whether the WBMC was internally or externally sold. Total WBC volumes are not impacted by this change.
Effect of the change	The change will only affect the WBC related services within WBA Market A and B, reclassifying costs as internal rather than external. Unit costs of internally sold and externally sold WBC will remain the same.
Support for the change	We have discussed our classification of these services with Ofcom as part of their investigation into WBC cost orientation and they have informally supported this change.
Key changes in accounting documents	The AMD description of how WBA revenues and volumes are calculated will be amended to reflect this change.

Section 3.33 – Treatment of BT Group Central Business Services

Type	Change in allocation basis
Key driver for change	More complete
Trigger for change	Other – BT Reorganisation
Description of change	The Central Business Services (CBS) function has been created in BT Group from three existing functions: • The Finance Shared Service Centre (FSSC), which was previously a Corporate function and provides offshore accounting and HR service to all of BT Group; • The old CBS, which was previously a Global Services function and provides offshore business services including account management and customer contact centres; and • The procurement function, which supports the above contracts and was previously a Group Business Services function. The new unit has been designated with the OUC "CS". Our current method for apportioning these costs is to allocate them to the activity group: AG112 'Corporate Costs'. However, the old CBS function currently supports Global Services; we therefore intend to create new detailed attribution bases so that this cost is apportioned directly to Retail Residual. The FSSC and Procurement Units will be allocated to AG112 as before.
Effect of the change	There will be impact to any reported market.
Support for the change	This change is required following a business re-organisation, to ensure that cost allocations of the old CBS unit are not allocated to regulatory markets.
Key changes in accounting documents	The AMD will be updated to new attribution bases for CS (the old CBS unit), CSA1 & CSA6 (the old FSSC unit) and CSA3 (the old procurement unit).

Section 3.34 – Wholesale Broadband Access non-equivalence of input service rationalisation

Type	Other – rationalisation of services within the RFS
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	Within our RFS system we hold a number of detailed WBA services split into Openreach EOI based services (which hold the EOI charges from Openreach to Wholesale) and non-EOI Wholesale services (which hold non-Openreach costs e.g. core network costs). These services are then aggregated to form published services such as WBC or IPstream. We intend to rationalise and aggregate the Wholesale services, but not any of the Openreach EOI input services. There will be no impact on published services.
Effect of the change	There will be no impact to any reported market.
Support for the change	This change will simplify the WBA reporting and reduce the opportunities for error.
Key changes in accounting documents	There are no changes to accounting methodology documents. The Wholesale Catalogue will be amended to reflect the removal of service codes.

Section 3.35 – RFS eliminations and goodwill

Type	Other – RFS reporting format changes
Key driver for change	Other – more transparent reporting in the RFS
Trigger for change	BT judgement
Description of change	We intend to make two changes to the way we report our total revenues costs and MCE in the RFS to make them easier for the user of the RFS to compare with the statutory BT Group accounts. Firstly, we intend to add a reconciliation line to section 5.1 of the RFS that eliminates all internal revenue and subsequent operating costs, so that the RFS aligns to statutory BT Group accounts. Currently our performance summary includes both internal and external revenue; BT Group totals only include external revenue. Secondly, we intend to report goodwill within the Retail Residual MCE, and not in the MCE reconciliation to the statutory accounts section of the RFS.
Effect of the change	There will be no impact to any regulated market. The changes will impact the reconciliation statements and Retail Residual MCE by changing the treatment of goodwill.
Support for the change	The changes will align the RFS to the statutory accounts. Total revenue and return on MCE will be more aligned; and there will be fewer reconciling items in the MCE reconciliation in the RFS.
Key changes in accounting documents	There are no changes to accounting methodology documents.

Section 3.36 – Revenue and Volume data source for Openreach

Type	Change in source data; and Change in valuation methodology;
Key driver for change	More complete; and More consistent with the RFS as a whole
Trigger for change	Changes in available evidence
Description of change	The production of Openreach revenues and volumes for the RFS in 2013/14 (and prior years) used a number of data sources to split the data to the level required for the RFS. One of the primary inputs was the Source Data Blocks (SDB) Excel file produced by Openreach; however in 2014/15 Openreach has replaced the SDB with a new Oracle reporting system called the Actuals Reporting Cube (ARC). The ARC replaces the SDB as the primary source for Openreach revenues and volumes within the regulatory accounts. ARC is the active reporting source used in the preparation of the management accounts with Openreach. The SDB will not be generated for 2014/15. We therefore intend to use ARC as a replacement for the SDB for 2014/15. The new ARC system provides an increased level of product detail beyond what was previously captured in the SDB. This allows clearer mapping of products to RFS services and also a greater transparency to the ledgered billing transactions and RFS service product mixes. Although an additional level of detail is available for revenues the RFS costs and services will continue to be produced at the same level as before, subject to new reporting requirements. The main methodology change is for the Ethernet products. Previously the Ethernet product detail within the SDB did not provide enough information to populate the RFS services. Therefore to populate the accounts, the revenues and volumes were calculated using COSMOSS/EST volume data, list prices and reconciled back to overall ledger revenue. As ARC provides increased product granularity compared to the SDB, Ethernet products can now move to the same data source as non-Ethernet products (i.e. ARC). However, ARC does not provide the full level of granularity required. Therefore supplementary information is still required to populate the accounts (for example; ARC does not hold the WECLA/Non WECLA split). The previous Ethernet methodology using COSMOSS/EST data will still be used as a check to test the ARC data during the 2014/15 account production. In general the non-Ethernet products (e.g.: WLR, LLU, NGA etc) remain on a consistent methodology basis as when produced using the SDB and therefore no significant changes are expected. As with the SDB, ARC does not capture the full level detail and granularity required to populate the RFS. Therefore, Group adjustments will remain, for example the incorporation of Internal Northern Ireland data, as this is not available within ARC.
Effect of the change	We do not anticipate that the change in Ethernet will impact any reported market by a material amount. This confirmation will be available in time for inclusion in the reconciliation report to be published by 31 July 2015 under SMP Condition 23 of Ofcom's Regulatory Financial Reporting Final Statement published on 20 May 2014. If material, we will provide the variances of the Ethernet methodology change in this report.

Support for the change	Openreach have moved to using the ARC as the basis of their management accounts production, consequently the SDB will not be produced going forward.
Key changes in accounting documents	The Primary Accounting Document will be amended to take into account the new process.

Section 3.37 – Openreach reorganisation

Type	Other – business reorganisation
Key driver for change	More consistent with BT organisational structure
Trigger for change	Other – business reorganisation
Description of change	There were a number of reorganisations within Openreach during 2014/15. The most significant of these was the creation of a new OUC: BD 'Business and Corporate Delivery'. This unit is responsible for installing and maintaining Ethernet services and was creating by moving Engineers from OUC: BL 'Network Investment'. This change will not have any impact on the allocation of direct engineers' activities to plant groups. Our intention is to apportion the indirect costs within this business unit in proportion to the base on the direct pay costs of its engineers. This treatment is consistent with how we treat similar costs in the rest of the RFS but represents a change from the previous year since the indirect we apportioned at an aggregate level for OUC BL as a whole. We do not expect this change to have a material impact on markets but the reorganisation only took place in the final quarter of 2014/15 and we have not had sufficient time to produce our Regulatory accounts to measure potential impacts. There were two other smaller business unit changes effecting teams that have moved from OUC: BW 'Service Management' to OUC BL. We intend to map the specific OUCs for these teams so that the costs are treated in the same way as last year.
Effect of the change	We believe that the reorganisations will not have any material impact on the allocation of costs in regulated markets.

Support for the change	Changes to the structure of Openreach need to be reflected in the allocation of costs to the RFS.
Key changes in accounting documents	The AMD will be updated to include the new OUCs.

Appendices

Appendix 1

Template for change control provided in Ofcom's Regulatory Financial Reporting Final Statement (May 2014)

Title	*Short title for each change*
Type	*Select from 1) Change in allocation basis; 2) change in valuation methodology; 3) change in source data; or 4) other*
Key driver for change	*State key driver based on Regulatory Accounting Principles* *Select from: 1) more complete; 2) more accurate; 3)more objective; 4) more consistent with regulatory decisions; 5) more cost causal; 6) more compliant with statutory accounting standards; or 7 more consistent*
Trigger for change	*Select from 1) BT judgement; 2) Regulatory decision; 3) changes in available evidence; or 4) other*
Description of change	*A short explanation of the new methodology and how it differs from the old methodology*
Effect of the change	*A description of the impact of the change in terms of the components most affected and the general impact of the change and the markets and services that are most affected by the changes*
Support for the change	*A detailed justification for the change and the evidence taken into account to support the change*
Key changes in accounting documents	*Set out key changes to accounting documents*

Appendix 2

List of abbreviated terms used throughout the report

20CN	20th Century Network
21CN	21st Century Network
AMD	Accounting Methodology Documentation
ARC	Actuals Reporting Cube
AFI	Additional Financial Information
AI	Alternative Interface
BES	Backhaul Extension Services
BDUK	Broadband Delivery UK
BCMR	Business Connectivity Market Review (March 2013)
CBS	Central Business Services
CIO	Chief Information Office
COW	Class Of Work
CCA	Current Cost Accounting
DAM	Detailed Attribution Methodology
DSLAM	Digital Subscriber Line Access Multiplexer
(D)LRICs	Distributed Long Run Incremental Costs
DSAC	Distributed Stand Alone Cost
EES	Estate Engineering Services
EAD	Ethernet Access Direct
EBD	Ethernet Backhaul Direct
EvoTAMS	Evolutionary Testing Access Matrix System
ECC	Excess Construction Charge
FM	Facilities Management
FTE	Full Time Equivalent
FTTC	Fibre To The Cabinet
FSSC	Finance Shared Service Centre
FAMR	Fixed Access Market Review (June 2014)
FRU	Flexible Resource Unit
FAC	Fully Allocated Costs
GEA	Generic Ethernet Access
IP	Internet Protocol
LOB	Line Of Business
LLU	Local Loop Unbundling
LRIC	Long Run Incremental Cost
MEAS	Managed Ethernet Access Services
MCE	Mean Capital Employed
MPF	Metal Path Facility
MI	Multiple Interface
MSIL	Multiple Services Interconnect Link
NBMR	Narrowband Market Review (September 2013)
NRC	Net Replacement Cost
NGA	Next Generation Access
ONBS	Optical Network Backhaul Services
OUC	Organisational Unit Code
OOI	Other Operating Income
PWNRC	Profit Weighted Net Replacement Cost
PSTN	Public Switched Telephone Network
RAV	Regulatory Asset Valuation
R&P	Relationships And Parameters
SMPF	Shared Metal Path Facility
SDB	Source Data Blocks
TSO	Technology, Services and Operations
TVC	Television Connect
TAMS	Testing Access Matrix System
TI	Traditional Interface
WAELS	Wholesale Analogue Exchange Line Services

WBA	Wholesale Broadband Access
WBAMR	Wholesale Broadband Access Market Review (June 2014)
WBC	Wholesale Broadband Connect
WBMC	Wholesale Broadband Managed Connect
WCC	Wholesale Content Connect
WES	Wholesale Extension Services
WLA	Wholesale Line Access
WLR	Wholesale Line Rental