Change Control Notification in accordance with SMP Condition 11.21 of Ofcom's Business Connectivity Market Review (BCMR) Final Statement published 28 April 2016

27 June 2016

Contents

Change control notification under SMP Condition 11.21 of Ofcom's Business Connectivity Market Review (BCMR) Final Statement for the year ended 31 March 2016

Section 1

Introduction to the Change Control Notice

Section 1.1 – Introduction

This Change Control Notification is published under SMP Condition 11.21 of Ofcom's Business Connectivity Market Review (BCMR) Final Statement published 28 April 2016, in respect of all methodology changes that were implemented between the Current Cost Financial Statements for the year ended 31 March 2015 and the Current Cost Financial Statements for the year ended 31 March 2016.

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 28 October 2016 under SMP Condition 11.23 of Ofcom's Business Connectivity Market Review (BCMR) Final Statement published on 28 April 2016.

This Change Control Notification is not a replacement for, nor should it be regarded as an alternative to, the published Current Cost Financial Statements, also known as the RFS, for the year ended 31 March 2015. In accordance with Section 435(1) of the Companies Act 2006, this Change Control Notice is not our statutory accounts, but BT Group plc's Annual Report dated 6 May 2015 which this Change Control Notification reconciles to were delivered to the Registrar of Companies. This Change Control Notification has not been audited.

This Change Control Notification should be read in conjunction with our 2014/15 Accounting Methodology Documentation (AMD) to ensure that all abbreviations, cost estimations and allocations, and descriptions are understood.

This Change Control Notification has been prepared under the Financial Capital Maintenance ("FCM") convention in accordance with the principles set out in the handbook "Accounting for the Effects of Changing Prices", published in 1986 by the Accounting Standards Committee. Under the FCM convention we include changes in asset values in our income statement as unrealised holding gains or losses. The Current Cost Accounting (CCA) section also includes the Regulatory Asset Valuation (RAV) where Ofcom has directed an alternative methodology for valuing parts of the local access network.

Section 1.2 – Overall structure of the report

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

- Section 2 – provides the impact of methodology changes at the level of the Markets and Technical Areas (as applicable) by setting out the figures which were presented in the previous Financial Year alongside the figures that would have been presented had such changes been made in the previous Financial Year.
- Section 3 – provides an explanation of the reported methodology changes, including the reasons for making each of the changes.
- Appendices – Ofcom's Change Control Notification template and a glossary of commonly used abbreviations

Section 2

Impact of each of the changes on the figures at the level of the Markets and Technical Areas

Section 2.1 Total CCA Operating Cost impact of each of the changes on the figures at the level of the Markets and Technical Areas for published 2014/15 RFS figures

	Fixed Access Markets				Business Connectivity Markets								Narrowband Markets			Wholesale Broadband Access Market							
Figures in £m	**WFAEL**	**WLA**	**ISDN2**	**ISDN30**	**Low Bandwidth TISBO**	**Medium Bandwidth TISBO**	**High Bandwidth TISBO**	**TI Regional Trunk**	**Technical areas (Point of Handover)**	**AISBO Non WECLA**	**AISBO WECLA**	**MISBO Non WECLA**	**Fixed call origination**	**Fixed geographic call termination**	**Technical areas (Interconnect Circuits)**	**WBA - Market A**	**Total SMP Markets**	**Wholesale Residual**	**EOI Eliminations**	**Other Eliminations**	**Retail Residual**	**Roundings**	**Total Markets**
2014/15 RFS market figures	1,250	1,424	54	82	186	10	12	11	3	390	32	73	98	81	25	202	3,933	2,631	(909)	(4,438)	13,323	0	14,540
Methodology changes proposed by Ofcom	(99)	(107)	(2)	(1)	(4)	(1)	0	(1)	0	(48)	(2)	(8)	9	9	0	(25)	(280)	76	0	0	211	(8)	(1)
Methodology changes proposed by BT	(5)	(24)	0	1	(1)	0	(1)	1	0	6	1	(8)	(1)	(1)	0	24	(8)	(138)	20	(79)	201	4	0
Roundings	(1)	2	(1)	0	0	0	(1)	0	0	(1)	(2)	0	0	(1)	0	(2)	(7)	2	0	0	0	4	(1)
Total effect of methodology changes	(105)	(129)	(3)	0	(5)	(1)	(2)	0	0	(43)	(3)	(16)	8	7	0	(3)	(295)	(60)	20	(79)	412	0	(2)
2014/15 RFS market figures reflecting all methodology changes	1,145	1,295	51	82	181	9	10	11	3	347	29	57	106	88	25	199	3,638	2,571	(889)	(4,517)	13,735	0	14,538

The full tables with references to the individual methodology changes in Section 3 are available in Annex 1.

These figures estimate the impact of each methodology change. Not all methodology changes take into account overlapping effects from other proposed methodology changes.

Section 2.2 MCE impact of each of the changes on the figures at the level of the Markets and Technical Areas for published 2014/15 RFS figures

	Fixed Access Markets				Business Connectivity Markets								Narrowband Markets			Wholesale Broadband Access Market							
Figures in £m	WFAEL	WLA	ISDN2	ISDN30	Low Bandwidth TISBO	Medium Bandwidth TISBO	High Bandwidth TISBO	TI Regional Trunk	Technical areas (Point of Handover)	AISBO Non WECLA	AISBO WECLA	MISBO Non WECLA	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A	Total SMP Markets	Wholesale Residual	EOI Eliminations	Other Eliminations	Retail Residual	Roundings	Total Markets
2014/15 RFS market figures	4,940	3,917	173	208	451	31	39	49	6	1,576	100	200	177	147	32	439	12,485	2,140	0	0	4,377	0	19,002
Methodology changes proposed by Ofcom	34	79	4	1	(18)	(2)	(3)	(12)	1	(42)	(5)	(1)	17	13	(3)	(55)	8	(72)	0	0	57	(1)	(8)
Methodology changes proposed by BT	28	(37)	0	10	(4)	0	(4)	4	0	9	1	(15)	(2)	(2)	0	4	(8)	(26)	0	0	33	1	0
Roundings	0	3	(1)	0	0	1	0	0	0	1	1	(1)	0	1	0	0	5	(1)	0	0	(2)	(2)	0
Total effect of methodology changes	62	45	3	11	(22)	(1)	(7)	(8)	1	(32)	(3)	(17)	15	12	(3)	(51)	5	(99)	0	0	88	(2)	(8)
2014/15 RFS market figures reflecting all methodology changes	5,002	3,962	176	219	429	30	32	41	7	1,544	97	183	192	159	29	388	12,490	2,041	0	0	4,465	(2)	18,994

The full tables with references to the individual methodology changes in Section 3 are available in Annex 1.

These figures estimate the impact of each methodology change. Not all methodology changes take into account overlapping effects from other proposed methodology changes.

Section 2.3 Revenue impact of each of the changes on the figures at the level of the Markets and Technical Areas for published 2014/15 RFS figures

	Fixed Access Markets				Business Connectivity Markets								Narrowband Markets			Wholesale Broadband Access Market							
Figures in £m	**WFAEL**	**WLA**	**ISDN2**	**ISDN30**	**Low Bandwidth TISBO**	**Medium Bandwidth TISBO**	**High Bandwidth TISBO**	**TI Regional Trunk**	**Technical areas (Point of Handover)**	**AISBO Non WECLA**	**AISBO WECLA**	**MISBO Non WECLA**	**Fixed call origination**	**Fixed geographic call termination**	**Technical areas (Interconnect Circuits)**	**WBA - Market A**	**Total SMP Markets**	**Wholesale Residual**	**EOI Eliminations**	**Other Eliminations**	**Retail Residual**	**Roundings**	**Total Markets**
2014/15 RFS market figures	1,726	1,720	112	213	324	21	21	19	3	729	79	102	202	12	34	381	5,698	2,938	(909)	(4,438)	14,691	(1)	17,979
Methodology changes proposed by Ofcom	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Methodology changes proposed by BT	7	5	0	0	(9)	0	0	0	0	4	1	4	0	0	(5)	45	52	8	20	(79)	0	(1)	0
Roundings	(1)	(1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(2)	1	0	0	0	1	0
Total effect of methodology changes	6	4	0	0	(9)	0	0	0	0	4	1	4	0	0	(5)	45	50	9	20	(79)	0	0	0
2014/15 RFS market figures reflecting all methodology changes	1,732	1,724	112	213	315	21	21	19	3	733	80	106	202	12	29	426	5,748	2,947	(889)	(4,517)	14,691	(1)	17,979

The full tables with references to the individual methodology changes in Section 3 are available in Annex 1.

These figures estimate the impact of each methodology change. Not all methodology changes take into account overlapping effects from other proposed methodology changes.

Section 2.4 Summary of methodology changes with impacts to published 2014/15 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 2014/15 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 2.1 – Total CCA Operating Cost impact of each of the changes on the figures at the level of the Markets and Technical Areas, Section 2.2 – MCE impact of each of the changes on the figures at the level of the Markets and Technical Areas, and Section 2.3 - Revenue impact of each of the changes on the figures at the level of the Markets and Technical Areas.

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

Ref	Paper title
3.39	Cumulo NRC Valuation
3.40	TISBO Component Rationalisation
3.41	F8 to Class of Work Alignment
3.42	F8 to Finance Type Alignment

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

Ref	Paper title
3.39	Cumulo NRC Valuation
3.40	TISBO Component Rationalisation
3.41	F8 to Class of Work Alignment
3.42	F8 to Finance Type Alignment

Section 2.5 Summary of methodology changes with no impact to published 2014/15 RFS costs or MCE in any regulated market

This section reports a list of all methodology changes that do not have any impact to any regulated market based on published 2014/15 RFS operating costs or MCE. These methodology changes are described in Section 3.

Changes which do not impact any reported market

Ref	Paper title
3.24	Access Fibre CCA Classes of Work
3.43	Removal of 21CN Commercial Model
3.44	Allocation of DRM Treatments for New GL8 Codes
3.45	Closure of Non-Core Retail Residual Model
3.46	EE Internal and External Volumes
3.47	EE Assets
3.48	REFINE Entity and Market Description Changes
3.49	REFINE DRM Enhancements
3.50	New 21CN CoWs for CCA
3.51	Removal of Cumulo Journal and CUMRBTE Base
3.52	Openreach Own Work Capitalisation
3.53	LRIC CVR Categories
3.54	BASENGT
3.55	Model Closures and Model Renaming
3.56	ATM Platform

Section 3

Explanation of reported methodology changes

Section 3.1 – Electricity

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	A new model for allocating total electricity costs will be created, which will move costs out of AG106 (Group Property Activity Group) and into new dedicated electricity bases. The new model will split the total electricity costs into ten categories and each category will have an appropriate regulatory treatment to attribute the costs into plant groups and products. These ten categories for electricity drivers are: Office; Data Centres; Openreach Specialised; BT TSO Specialised; LLU; NGA/FTTC; BT Cables; BT Sport; Third Party Electricity (exc. LLU); and Motor Transport Workshops.
Effect of the change	The largest impacts are to reduce costs in Wholesale Broadband Access Market A (-12%) and Medium bandwidth TISBO (-9%) and increase costs in Call Termination (5%).
Support for the change	The methodologies proposed for the BT TSO Specialised Electricity model aligns power consumption cost attribution with the BT TSO energy model, which itself correlates well with actual power consumption. Direction 1.7 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "1.7. In the case of electricity costs which are associated with the BT TSO line of business, BT shall: 1.7.1. identify the proportion of the costs which relate to each Equipment Type which has individual electricity meters; 1.7.2. attribute the costs identified in paragraph 1.7.1 to each Equipment Type on the basis of metered electricity consumed by that Equipment Type; and 1.7.3. attribute the remainder of the costs of electricity using the Estimated Electricity Consumption methodology."
Key changes in accounting documents	The electricity base description will be updated and refer to Elect1 base rather than DTNELSP base. The AG106 description does not need amending due to the Group Property methodology change (see section 3.5) removing this Activity Group.

Section 3.2 – Backhaul/Core Duct

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Non-access Duct costs are currently split between 'core' and 'backhaul' based on the number of live circuits. The proposal is to change the allocation to use fibre lengths. Furthermore, the BT TSO ledgered costs for core duct will be adjusted to align to the amount calculated based on CTCS, redistributing costs from core duct to access and backhaul.
Effect of the change	Openreach market MCEs increase (WFAEL £24m, WLA £13m, AISBO Non-WECLA £38m), offset by Wholesale Regional Trunk market MCE reduction of c£10m and 20% and further Residual reductions.
Support for the change	Direction 1.5 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "1.5. In apportioning duct costs between each of the Access Duct, the Inner Core Duct and the Backhaul Duct, BT shall: 1.5.1. attribute duct costs between the Access Duct and the Core Duct pro-rata using an estimate of the gross replacement cost of the Access Duct and gross replacement cost of the Core Duct; and 1.5.2. apportion costs of the Core Duct pro-rata between the Inner Core Duct and the Backhaul Duct on the basis of the number of Transmission Circuits and the length of those Transmission Circuits."
Key changes in accounting documents	The AMD entry for Activity Group AG135 Access Duct will have its reference to PG130A Local Loop Unbundling Tie cables removed.

Section 3.3 – Openreach Software

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Openreach Software that can be identified as relating to specific products or assets is to be attributed to the cost categories that represent the costs of those specific products or assets. All other product related Openreach software costs will be attributed using the Openreach PAC methodology.
Effect of the change	The change does not affect any market by 5% on CCA costs or MCE. The change moves costs between Openreach's SMP markets, moves £0.9m from Openreach SMP markets into residual, and reattributes £0.8m into Wholesale SMP markets (spread across WBA, Calls and TISBO markets). WFAEL increases costs by £1.7m whereas AISBO non-WECLA reduces by -£3.2m.
Support for the change	Direction 1.6 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "In the case of capitalised software costs: 1.6.1. BT shall attribute these costs to the Product, asset, line of business or support function where the information which BT holds demonstrates that such costs are associated with that Product, asset, line of business or support function (as applicable); 1.6.2. BT shall attribute capitalised software costs to all those Products or assets which that software supports where the information which BT holds demonstrates that these costs are shared between those Products or assets; 1.6.3. Where the information which BT holds does not allow BT to attribute capitalised software costs in the manner referred to in paragraphs 1.6.1 and 1.6.2, BT shall: a) attribute capitalised software costs associated with the Openreach line of business using the Openreach PAC methodology; b) attribute capitalised software costs associated with the BT TSO line of business using the BT TSO PAC methodology; c) attribute capitalised software costs associated with any line of business which is not referred to in paragraphs 1.6.3(a) and 1.6.3(b) pro-rata to each cost category (e.g. activity group, plant group, residual) which has received an allocation of one or more of the following at the preceding level of the Regulatory Accounting System: (i) Current Pay Costs associated with that line of business, (ii) Non-Pay Costs associated with that line of business, (iii) Current Cost Depreciation on Fixed Assets associated with that line of business, and (iv) Return on Capital Employed associated with total Fixed Assets and Net Current Assets associated with that line of business." Ofcom's statement covers both Openreach and BT TSO software, whereas section 3.3 only covers the Openreach impact. Section 3.4 covers BT TSO Software.
Key changes in accounting documents	The AMD needs updating for Software base descriptions, to remove Softdep from the PG772a description, and to add the new Software Plant Group descriptions.

Section 3.4 – BT TSO Software

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	The current BT TSO Software allocation is 100% to AG102 (BT TSO Operational Costs). Ofcom's Business Connectivity Market Review directs that BT TSO software should instead be attributed to: i) software specific product or asset groups ii) operational software supporting core network infrastructure in BT TSO (which we will continue to apportioned to AG102) iii) software used by BT TSO support functions (which we will apportion to AG103) iv) other specific Lines of Business (LoBs), which we will apportion to LoB-specific products or Activity Groups.
Effect of the change	The Ofcom proposals will reduce SMP operating costs by £17m and MCE by £22m in regulated markets. FAMR costs will reduce by -£11m, BCMR by -£8m, whilst WBA will increase £1m. The offset is an increase in Residual cost.
Support for the change	Direction 1.6 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "In the case of capitalised software costs: 1.6.1. BT shall attribute these costs to the Product, asset, line of business or support function where the information which BT holds demonstrates that such costs are associated with that Product, asset, line of business or support function (as applicable); 1.6.2. BT shall attribute capitalised software costs to all those Products or assets which that software supports where the information which BT holds demonstrates that these costs are shared between those Products or assets; 1.6.3. Where the information which BT holds does not allow BT to attribute capitalised software costs in the manner referred to in paragraphs 1.6.1 and 1.6.2, BT shall: a) attribute capitalised software costs associated with the Openreach line of business using the Openreach PAC methodology; b) attribute capitalised software costs associated with the BT TSO line of business using the BT TSO PAC methodology; c) attribute capitalised software costs associated with any line of business which is not referred to in paragraphs 1.6.3(a) and 1.6.3(b) pro-rata to each cost category (e.g. activity group, plant group, residual) which has received an allocation of one or more of the following at the preceding level of the Regulatory Accounting System: (i) Current Pay Costs associated with that line of business, (ii) Non-Pay Costs associated with that line of business, (iii) Current Cost Depreciation on Fixed Assets associated with that line of business, and (iv) Return on Capital Employed associated with total Fixed Assets and Net Current Assets associated with that line of business." Ofcom's statement covers both Openreach and BT TSO software, whereas section 3.4 only covers the BT TSO impact. Section 3.3 covers Openreach Software.
Key changes in	Softdep base description for OUC T will be added to the AMD.

accounting documents	

Section 3.5 – Group Property and Fixed Assets

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Change of methodology for the AG106 process which allocates property costs for BT/non-BT office and specialised buildings. To comply with Ofcom's Business Connectivity Market Review direction we have created four new Activity Groups to separately apportion property costs under the following categories: 1. AG170 for BT owned Specialised Buildings 2. AG172 for BT owned Office 3. AG171 for Non-BT owned Specialised Buildings 4. AG173 for Non-BT owned Office
Effect of the change	The proposed changes result in an overall decrease of £30m against the SMP markets' total CCA operating cost. The Fixed Access Markets are impacted, with costs decreasing by £42m. Narrowband costs increase, with Call Termination increasing 4.5% and Call Origination increasing 4.1%. On MCE, Interconnect reduces -11.4%, a reduction of c£4m.
Support for the change	Direction 1.8 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "1.8. In the case of property costs, BT shall: 1.8.1. separately identify and separately attribute property costs currently attributed within activity groups AG106 and AG412 to each of the following types of space: a) office space within buildings owned by BT; b) specialised space within buildings owned by BT; c) office space within buildings which are rented by BT; d) specialised space within buildings which are rented by BT. 1.8.2. within each building and for each type of space within that building, attribute the costs associated with vacant space in the same proportions as the costs of any occupied space are attributed. For the avoidance of doubt, BT shall not attribute all vacant space in operational buildings with a main distribution frame solely to Openreach, or cable chambers, or main distribution frame areas; and 1.8.3. not apply any mark-up for potential future growth to LLU Hostel Areas."
Key changes in accounting documents	Changes to the AMD are required: - inclusion of the four new Activity Groups - removal of previous Activity Group (AG106 & AG412) descriptions

Section 3.6 – Overheads

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Ofcom's Cost Attribution Review and BCMR Final Statement have directed a change to the current allocation for: • AG112 (Corporate Overheads), • AG103 (BT TSO functions), • AG409 (BT Wholesale Pay & ROA) New Activity Groups are being set up in order to capture corporate overheads and BT TSO function costs as required: • AG115 BT Factorised Pay - excludes P646 (replaces AG112) • AG116 BT Factorised Pay - Includes P646 (replaces AG112) • AG117 BT Group PAC – excludes P646 (replaces AG112) • AG118 BT Group PAC – Includes P646 (replaces AG112) • AG119 BT TSO PAC (replaces AG103) AG409 will be changed to use PAC. New models will be created to capture specific cost attributions, they are: • Personal Computing • Insurance • Employee Broadband • Ofcom Licence Fee A number of existing models will also be modified.
Effect of the change	The new methodologies change the current allocation process and impact all SMP markets' costs. WFAEL (-5.4%), AISBO Non-WECLA (-6.5%) and AISBO WECLA (-5.3%) are all affected by more than 5% on Total CCA Operating Costs. MCE is less affected by the change, with all markets affected by less than 2%.
Support for the change	These changes were directed by Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35*: Direction 1.9 listed the costs currently included in Activity Group AG112 (Corporate Overheads) by cost category, and directed specific cost attribution methodologies for each category. As per direction 1.9.18, costs currently in AG112 that were not specifically referred to by the directions must use the BT Group PAC methodology. Direction 1.10 listed cost categories currently within AG103 and directed specific cost attribution methodologies for each category. As per direction 1.10.06, costs currently in AG103 that were not specifically referred to by the directions must use the BT TSO PAC methodology. Direction 1.12 stated that the costs currently included in AG409 (BT Wholesale General Software) should be attributed using the BT Wholesale PAC methodology.
Key changes in accounting documents	Updates are needed to the AMD to include methodology descriptions for the new Activity Groups, and a section added to AMD on Entity WACC %s for PAC calculation.

Section 3.7 – COMCOS and AG410

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	COMCOS apportions Openreach common costs that cannot be assigned directly to any particular product or service within Openreach. This base currently allocates costs based on pay and cost of capital. In line with Ofcom's BCMR direction, the COMCOS methodology will be replaced by several different alternative methodologies such as engineering pay and product revenues. AG410 captures Openreach costs such as non-specific software depreciation. The methodology for allocating these AG410 overhead costs will change to be based on Openreach PAC and engineering team pay, as per the BCMR Final Statement.
Effect of the change	BCMR market costs reduce (£6.0m), increasing costs in FAMR markets.
Support for the change	These changes were directed by Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35*: Direction 1.11. listed cost categories currently attributed by COMCOS and directed specific cost attribution methodologies for each category. As per direction 1.11.7., costs currently attributed by COMCOS that were not specifically referred to by the directions must use the Openreach PAC methodology. For AG410, direction 1.13. stated that "BT shall separately identify the costs currently included in AG410 (Openreach General Software) for the following cost categories and attribute costs in each of these cost categories using the cost attribution methodology specified below. 1.13.1. Miscellaneous engineering activity (currently included against F8 code 103931 in OUC BV) using the Openreach Engineering Team Pay methodology. 1.13.2. Internally developed software and any other costs which are not referred to in paragraphs 1.13.1 using the Openreach PAC methodology."
Key changes in accounting documents	The AMD entry for COMCOS needs to be replaced by a number of methodologies depending on the Openreach unit: BA – Change to using the AG401 pay driver BF,BQ,BJ – Change to using the new AG410 PAC driver BR (part of BP in 15/16) – Based on product revenues BL,BV,BK,BI,BD – Change to using an engineering pay cost driver AG410 – This cost driver will be changed to exclude OOI, POLOs and capitalisation credit.

Section 3.8 – Access Fibre

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	This change relates to the allocation of Openreach Access Fibre HCA and CCA costs and MCE to NGA and non-NGA markets. Currently, both costs and MCE for spine and distribution are allocated to NGA and non-NGA based on GRC cost valuations for distribution fibre. The new methodology allocates: - Distribution costs to NGA and non-NGA based on depreciation (GRC values divided by average asset lives). MCE is allocated based on GRC multiplied by the ratio of NBV/GBV. - Spine costs and MCE will be allocated based on the number of distribution fibres for NGA and non-NGA.
Effect of the change	Total CCA Operating Costs: WLA costs increase £4m, partly offset by AISBO Non-WECLA costs decreasing -£3m. MCE: WLA MCE increases £75m, with the largest offsetting decreases in AISBO Non-WECLA (£57m), ISDN30 (£5m), Low TISBO (£4m), AISBO WECLA (£3m) and MISBO Non-WECLA (£3m).
Support for the change	Direction 1.4 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "1.4. BT shall attribute: 1.4.1. the depreciation and mean capital employed associated with distribution fibre between NGA and non-NGA cost categories on a basis which takes into account the difference in asset lives between NGA and non-NGA distribution fibre, such that an asset receives a relatively higher or lower proportion of depreciation and mean capital employed depending on its asset life; and 1.4.2. the depreciation and mean capital employed associated with spine fibre between NGA and non-NGA cost."
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.9 – Lung Provision

Type	Change in allocation basis
Key driver for change	More consistent
Trigger for change	BT Judgement
Description of change	Ofcom identified Deafness provision allocations to regulated markets in their 2014 FAMR Final Statement and proposed an amendment for 2015 RFS. The MCE was reallocated to the Residual market in 2014/15. The change for 2015/16 is to treat lung provision allocation in the same way as the Deafness provision. This has a financial impact as the Lung provision predominantly goes to regulated markets but will change to be allocated to Wholesale (Openreach) Residual.
Effect of the change	The change results in Lung provision costs being allocated 100% to the unregulated Residual Markets rather than 94% Openreach Markets, 3% Wholesale Markets and 3% Residual Markets. On total CCA operating costs, the only SMP markets impacted by more than £1m are WFAEL (-£2.9m) and WLA (-£3.6m). MCE impacts are larger, with MCE increases in WFAEL (£16.1m), WLA (£21.2m) and AISBO Non-WECLA (£4.6m) offsetting the credit movement into Wholesale (Openreach) Residual.
Support for the change	Ofcom directed BT to make the original Deafness provision change in their Regulatory Financial Reporting Statement 2015. The Lung provision is proposed for alignment with this, although it was not covered by the Statement.
Key changes in accounting documents	There is one change to the AMD: PG112C, the Plant Group previously used for Deafness provisions, will need to have the following reference to Deafness removed: “for example the BT engineer deafness provision” as it does not cover the Deafness provision anymore.

Section 3.10 – Internal Interconnect

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The proposal is to remove all internal revenue published within the Interconnect market, as BT cannot interconnect with itself and BT Wholesale does not bill any downstream BT divisions for 'internal' interconnect. Although the volume of circuits previously shown as internal interconnect are for circuits that are not billed externally, we will no longer assume that they are traded internally.
Effect of the change	The removal of internal revenue from the Interconnect market reduces the market revenue by £5m, from £34m to £29m, which is a reduction of 15%. SMP market level costs are not impacted, but there is a reduction in Retail Residual costs to offset the reduction in Interconnect market revenues. Interconnect market MCE has a reduction of £0.3m due to removal of internal revenue receivables. The reduced MCE of £0.3m offsets within the Wholesale Residual market.
Support for the change	This change will increase the accuracy of the RFS, and follows a detailed review of the systems that provide circuit volumes for RFS production.
Key changes in accounting documents	The Wholesale Catalogue will no longer show Internal Interconnect.

Section 3.11 – TRC Source Data

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT Judgement
Description of change	Depreciation directly related to TRC is derived based on the total TRC manhours and the hourly Openreach pay rate multiplied together. The Openreach TRC manhour data was calculated using revenue data divided by average TRC price (an average price was used because there are different TRC products). The new method is based on actual TRC manhours booked by the Openreach engineers, in order to remove complexity and increase reliability of the source data.
Effect of the change	Costs are removed from SMP markets, particularly WLA and AISBO non-WECLA, and reallocated to Wholesale Residual. All SMP market level impacts are below 1%.
Support for the change	During 2015/16, Openreach identified that the calculation of TRC manhours could be improved as it was based on revenue divided by average price rather than actual manhours. The source data for extracting the manhours has been reconciled back to the total TRC revenue.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.12 – BDUK

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT Judgement
Description of change	Depreciation for 2014/15 was calculated assuming all assets were registered at the start of the year and then dividing by two, to calculate an average charge. This change proposes to calculate BDUK depreciation more accurately by applying the charge on a monthly basis, from the start of the quarter after the asset was registered. Improvements are also being implemented to how BDUK f8/OUC combinations are apportioned to BDUK Plant Groups to ensure an accurate split between Fibre Rollout Funding and Funded Fibre Rollout Spend. These changes have no market level impact. Changes will be made to ensure funding to Northern Ireland is captured to allow for appropriate apportionment of BDUK funding to Plant Groups. Improvements are also being made to the attribution of the release of funding received. In the 2014/15 RFS this cost was attributed over a number of components. As this relates solely to BDUK funding this cost will now be attributed to the Fibre Rollout Funding component only. Finally, in 2015/16 BT TSO begun to receive funding for BDUK, so this will be added to the BDUK processes for 2015/16 in order to include funding within our intended processes that currently only apply to Openreach OUCs.
Effect of the change	Costs under the new methodology increase in WLR by £8m, and reduce by -£13m in WLA. There is a £2m cost increase in AISBO non-WECLA. MCE predominantly moves between WLR and WLA, with an increase of £46m in WLR offset by a reduction in WLA of -£44m.
Support for the change	These changes were identified as part of an internal BT review of the BDUK depreciation calculations made in 2014/15.
Key changes in accounting documents	The AMD needs to reflect PG999A being renamed as “Funded Fibre Rollout Spend”, as well as corrections to where BK apportions to and the naming of CL999.

Section 3.13 – POLO Cost and Revenues

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	The DTNCNSPO base attributes the costs relating to out payments to overseas operators. These are not related to any SMP services but previously apportioned a portion of these costs to Wholesale Residual and a portion to Retail Residual using historic information. All costs will now be apportioned to Retail Residual to simplify this residual apportionment. Matching revenue will also be removed from Wholesale Residual.
Effect of the change	£93.6m cost and the matching revenues reduce in Wholesale Residual. DTNCNSPO does not have any MCE.
Support for the change	The proposed changes simplify the production of the RFS, increasing efficiency and accuracy.
Key changes in accounting documents	DTNCNSPO base narrative is to be removed from the AMD, due to it now being 100% to Retail Residual.

Section 3.14 – EE Acquisition Costs

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Previously, EE-related acquisition costs and EE-related financing costs are modelled and allocated as part of AG112 and AG113 respectively. However, there were costs incurred within corporate overheads that were specific to the EE acquisition, and should therefore not be allocated to regulated markets. This methodology change is to ensure that EE transaction charges are not apportioned to regulated markets.
Effect of the change	The net impact is to increase cost in Retail Residual by £8.4m and £3.2m (relating to AG112 and AG113 allocations respectively) and a reduction in costs from the following regulated markets: - -£6.8m reduction in Fixed Access Markets - -£1.9m reduction in Business Connectivity Markets - Less than -£0.5m reduction in WBA Market A and Narrowband Markets. - -£2.2m reduction in Wholesale Residual There are no MCE impacts.
Support for the change	Direction 1.2 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "BT shall not allocate the transactional costs of the acquisition of EE to any Market".
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.15 – Fibre Access in WBA Market A

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory Decision
Description of change	Currently within the WBA markets Fibre Access WBC is only reported in Market B. Volumes now show that a material volume of Fibre Access is being used in Market A and therefore this needs to be reported in the published RFS.
Effect of the change	Revenue: • The change results in Fibre Access WBC revenue being allocated to both WBA Market A and B, moving revenue from WBA Market B (within Wholesale Residual) into WBA Market A. • WBA Market A revenue will increase by £45m or 12%; partially offset in reduced Wholesale Residual revenue. Cost (on an EOI basis): • £21m of total costs (£18m EOI charge) moves from WBA Market B to WBA Market A • Retail Residual cost also increase to offset the net increase in WBA Market A and B revenue.
Support for the change	Ofcom’s *WBA Market Review* (26 June 2014) concluded that they “found that services provided via copper, cable and fibre access networks are within the same market”. As fibre access volumes increase in Market A, it is becoming more material and needs new fibre services, internally and externally, to allow for fibre access to be reported in the RFS.
Key changes in accounting documents	The following AMD EOI sections need to change to reflect the apportionment to new fibre access services: • EBD and ONBS Connections and Rentals • GEA • Time Related Charges The following AMD EOI section needs to remove the fibre access service link: • ONBS Main Links Wholesale Catalogue amendments are also needed to list the fibre access option within WBC published services.

Section 3.16 – Service Management Centre

documents	

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory Decision
Description of change	The proposal is to repoint Service Management costs (SMC) from regulated and residual markets (Broadband Boost service) to these residual services: • Project Services • Project Simple (SMC people working on BT Wholesale products such as broadband)
Effect of the change	The change increases costs in the Wholesale (Openreach) Residual Market and reduces costs in the Openreach regulated markets. There are no markets or services impacted by the higher of £1m and 5%. However, the provision components for LLU, WLR, NGA and Ethernet are affected by above £1m and 5%.
Support for the change	Direction 1.1.2 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "BT shall attribute… the Class of Work costs associated with the Project Services to the Project Services."
Key changes in accounting	AMD description for Openreach Customer Service requires amendments to list the full set of Plant Groups that are apportioned to and the updated list of OUCs.

Section 3.17 – Copper Cancellations

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	Cancellations revenue will be repointed to WLR, WLA, ISDN2 and ISDN30 markets from Openreach Residual, in order to match costs.
Effect of the change	Regulated market revenues increase (WFAEL and WLR both by £3m) with the offset being a reduction in residual revenue.
Support for the change	We discovered that in the 2014/15 Regulatory Accounts there were Cancellation revenue items in residual that had no matching costs.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.18 – Ethernet Revenues

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	There were certain Ethernet revenue lines that were allocated to residual services (Openreach Other Activities – External/Internal) in the 2014/15 Regulatory Accounts. However the costs that related to this revenue were not booked to those services. Therefore this change moves the revenue from the residual services to match the costs.
Effect of the change	Moves £8.90m revenue from Residual to the Ethernet Markets and £2.35m to other residual services. No impact on costs.
Support for the change	We discovered that in the 2014/15 Regulatory Accounts there were a number of Ethernet revenue items in residual that had no matching costs.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.19 – Enhanced Care and Expedite

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	In 2015 RFS, Enhanced Care and Expedite revenues in residual are not being matched with costs. Revenues for Enhanced Care and Expedite will remain in residual however will move to new services to separately identify this revenue. Costs will be reapportioned from the current WLR and WLA services (in the SMP Markets) and instead be allocated to new services created in residual.
Effect of the change	The change results in costs being allocated to Wholesale Residual rather than WLR and WLA Markets (a reduction of -£4m WFAEL and -£3m WLA).
Support for the change	We discovered that in the 2014/15 Regulatory Accounts there were service maintenance revenue items in residual that had no matching costs.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.20 – CPE Switch

Type	Change in allocation basis
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	In the 2014/15 regulatory accounts, the Openreach Customer Premises Equipment (CPE) services in the residual markets had revenue but had no matching costs. This change repoints costs from regulated to residual markets and within residual markets.
Effect of the change	Costs reduce by -£16m in WLR, -£14m in WLA and -£5m in AISBO Non-WECLA. The offset is an increase in Wholesale Residual costs.
Support for the change	Direction 1.1.1 within Ofcom's 28 April 2016 *BCMR Final Statement – Annex 35* stated: "BT shall attribute… the Class of Work costs associated with providing the Customer Premises Equipment Services to the Customer Premises Equipment Services."
Key changes in accounting documents	An entry in the AMD is required for the new plant group for CPE switches.

Section 3.21 – Amendments

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	Amendments are where the customer amends an order. The revenue is currently in the Residual market – revenue only, no cost. The proposal is to move the amendment revenue out of these services and into the WLR market to the existing service 'Other WLR'.
Effect of the change	£3m revenue will move from residual to WFAEL, which is a 13% increase to the revenue reported on service "Other WLR".
Support for the change	We discovered that in the 2014/15 Regulatory Accounts there were a number of services reported in residual that should have been reported in regulated markets.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.22 – Abortive Visits

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	(i) Repoint Abortive Visit costs from SMP markets to Wholesale Residual (Openreach) to match revenue. (ii) Repoint Abortive Visit Revenue within Wholesale Residual to newly created service in Wholesale Residual (Openreach) for clarity.
Effect of the change	The costs associated with Abortive Visits will be allocated to Wholesale Residual rather than Regulated Markets. This will remove £7m cost from WFAEL and £4m cost from WLA.
Support for the change	This proposal will match revenues and costs for services reported in Wholesale (Openreach) Residual.
Key changes in accounting documents	New AMD entries will be added for the new Abortive Visits Plant Group and Component.

Section 3.23 – WLR Own Use

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	This proposal is to simplify a modelling adjustment for WLR Own Use (i.e. use of WLR by BT Group) revenue. This revenue was previously shared over four Openreach services but instead will now only be pointed to WLR Premium as the revenue has been identified as not relevant to the other three services that previously reported elements of the WLR Own Use revenue.
Effect of the change	This change points revenue to PSTN Premium rentals by reducing the reported revenue in the following services: PSTN Basic Rentals - Internal (£4.2m), Wholesale ISDN30 Rentals - Internal (£0.5m), and Wholesale ISDN2 Rentals - Internal (£0.2m). There are no instances where figures in the RFS are impacted by the higher of 5% and £1m.
Support for the change	Simplification of revenue calculations by removing an unnecessary revenue adjustment, after consultation with Openreach.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.24 – Access Fibre CCA Classes of Work

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	The fibre current cost adjustment for Spine and Distribution fibre is allocated to the Spine Fibre class of work (LFSC) and the allocation from CoW to Plant Group then reflects the split between Distribution and Spine. This paper proposes to separate the CCA adjustment between Distribution and Spine at CoW level. Pointing the CCA adjustment to the appropriate CoW would then give a more detailed allocation.
Effect of the change	There is no financial impact from the change.
Support for the change	The current cost adjustment is all pointed to Spine fibre. Having separate CCA adjustments between Spine and Distribution and pointing them to the appropriate class of work will lead to more accurate results. This increase in detail for our attribution is also a pre-requisite to allow us to follow Ofcom’s BCMR Final Statement’s spine/distribution methodology (see section 3.8).
Key changes in accounting	The AMD entry for CCAFIB needs to be deleted.

documents	

Section 3.25 – Analogue Private Circuits

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	Analogue Private Circuits are sold as retail products only by BT Global Services, BT Business & Public Sector and BT Wholesale & Ventures allowing customers to connect their UK sites with their own private line, and the regulatory reporting requirement for these services is through an AFI on Retail Residual. The proposal is to remove the revenue and EOI charges from Wholesale Residual, as there is no Wholesale service for Analogue Private Circuits.
Effect of the change	Wholesale Residual revenue reduces £11m with a reduction in Wholesale Residual EOI charge of £17m. These are offset by an increase in Retail Residual costs.
Support for the change	The change simplifies processes without affecting RFS or AFI reporting requirements.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.26 – Calls Factors and Volumes

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	There are three separate improvements proposed to the factors and volumes used in the Calls markets. The first change impacts costs whereas the second and third changes impact revenue: - Non-Geographic call termination service factors will be aligned to the factors for the Geographic Call Termination service. - We propose to nuance Operator component to service factors so that only the relevant service volume for each component is used for cost apportionments, rather than using a fixed factor of "1" which currently overstates service costs. - OLO to BT revenues currently apportioned to internal products will now be apportioned to external products. An external product will be set up for this revenue.
Effect of the change	Costs reduce by £0.7m in the Call Origination market and £0.6m in the Call Termination market. Similarly, MCE reduces by £0.6m in the Call Origination market and £0.6m in the Call Termination market. Both cost and MCE changes are offset by an increase in Wholesale Residual On Revenue, no SMP markets are affected, but there is an increase of £22m in Wholesale Residual revenue that is offset by an increased Retail Residual cost.
Support for the change	The previous methodologies were reviewed as part of evaluating published 2014/15 RFS data, and the change will increase the accuracy and cost causality of the RFS.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.27 – BT TSO CTC (Transition Centre) Costs

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	In the 2014/15 RFS, BT TSO CTC costs were directly allocated to AG103; however, CTC costs were also included in the 'Except' base methodology attributing other BT TSO costs across a number of activity groups. As a result, the amount of costs included in AG103 was too high (with costs in other cost categories being correspondingly too low). The CTC trade will now be removed from the base calculations for the BT TSO OUC Except bases.
Effect of the change	The impact of this change would be to remove around £1.0m of cost from regulated markets, with around £0.4m of this relating to business connectivity markets, £0.3m from WBA Market A and £0.2m from Narrowband markets.
Support for the change	Although not included with Ofcom's 28 April 2016 BCMR Direction, the BCMR Final Statement detailed this BT-proposed change (Annex 28, 2.281, pages 62-63).
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.28 – WBA Regrades and Migrations

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	(i) Proposal for migrations: create new WBC Migration services, new EOI Migration services for WBC and new WBC Interconnect Link; (ii) Proposal for amendment of re-grades EOI charge mapping and prices; (iii) Proposal for re-grades volumes to avoid including migration volumes.
Effect of the change	Costs in WBA Market A increase £2.5m, with the offsetting reduction in the Wholesale Residual and Retail Residual markets. SMP market level revenue movements are all below £0.5m.
Support for the change	This proposed change aligns reported volumes to the service definitions for Regrades and Migrations in the 2014 Ofcom WBA Market Review Statement.
Key changes in accounting documents	The Wholesale Catalogue will need to be updated as the Published Services for “WBC Ancillary Charges & other” (M181S17 internal) and (M181S19 external) now need to state the inclusion of the WBC migrations and WBC interconnect link services.

Section 3.29 – RBS Volumes

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	RBS circuits can be purchased individually (e.g. 2Mbit/s circuit) or as 8Mbit/s packages (e.g. 4 x 2Mbit/s circuits). RBS revenues were overstated because the volumes incorrectly included a count of the circuits within the packages as well as the packages themselves. From a costing point of view, the counts of packages were stripped out from the volumes. The proposed change is to correct the volumes and revenues.
Effect of the change	Revenue reduces by £9.3m in the Low TISBO market, a 10% reduction to reported external RBS service revenues and 3% of the Low TISBO Market. Market level cost impacts were 0.7% or less. Costs predominantly moved out of Low TISBO and into Wholesale Regional Trunk and Wholesale Residual.
Support for the change	This issue was identified as part of our 2016 RFS volume preparation process, where we review year on year volumes.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.30 – BT Sport MCE

Type	Change in allocation basis
Key driver for change	More Cost Causal
Trigger for change	BT Judgement
Description of change	Items of BTSSE (BT Sport Studio and Equipment) MCE were apportioned to regulated services in WLA. It is only relevant to BT Sport so should be apportioned instead to Retail Residual.
Effect of the change	The change results in £29m MCE being allocated to the Retail Residual market as opposed to WLA.
Support for the change	This issue was identified as a result of evaluating published 2014/15 RFS data. As the MCE is incurred within the BTSSE CoW – which is related to BT Sport, and related retail services – it is not cost causal to include this within WLA.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.31 – TRC Direct CoWs

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	Total Time Related Charges (TRC) costs are calculated by Openreach outside of REFINE. This is then compared to the total costs apportioning to TRC Plant Groups in REFINE from TRC-related Classes of Work (CoWs), before we apportion any balancing figure to TRCs out of the general maintenance costs. The calculation has been missing a number of direct CoWs, thus apportioning too much cost from general overheads to TRCs.
Effect of the change	The change increases costs in WFAEL, WLA and AISBO Non-WECLA by £1m each, with smaller increases in other SMP markets. This is offset by a c£5m reduction in Wholesale Residual costs.
Support for the change	The change in calculation to include all CoW costs directly apportioning to TRC Plant Groups will increase the accuracy of the cost attribution.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.32 – Residual Circuits and SP Revenue

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	In 2014/15 Wholesale Residual contained revenue for "BT Central Circuits" and "SP Access Links" with no matching costs. The proposal is to remove the revenue from Wholesale Residual, with an offsetting reduction in Retail Residual costs.
Effect of the change	Wholesale Residual revenue reduces by £20m, offset by reduced cost in Retail Residual.
Support for the change	To ensure that costs and revenues within Wholesale Residual match.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.33 – Optical Services

Type	Change in allocation basis
Key driver for change	More Accurate and More Cost Causal
Trigger for change	BT Judgement
Description of change	Two new methodologies are proposed to apportion Fibre and Electronics costs to Optical Services' Rentals using comparable volumes: 1. The apportionment of Access Fibre Plant Group costs to the component holding EAD and Optical Access Fibre costs, "EAD Fibre", as well as the costs from this component to the Optical services, will change to use bearer-related volumes only rather than include all equipment volumes so that the volumes are comparable with other entities. 2. Ethernet Electronics component costs exhaust to a range of services that hold either circuit or local end volumes, except for Optical services which hold a mixture of equipment volumes. When apportioning to service, we propose to calculate the cost of each item of equipment used specifically for Optical installations first, before applying usage factors in order to apportion this accurately calculated cost to Optical Services with the remaining costs apportioned to all other circuits based on their comparable volumes.
Effect of the change	The change results in less cost being allocated to the MISBO Non-WECLA market (£8.2m) and an increase in AISBO Non-WECLA of £7.5m and AISBO WECLA of £0.8m.
Support for the change	Both Optical Service changes will increase accuracy: 1. As it is only bearers that consume fibre, the Optical services consume fibre on the same basis as other services that use Fibre Access, and therefore it is more consistent to use an equivalent volume metric, rather than also include the volumes of other equipment and miscellaneous items. 2. Using usage factors to allocate specific costs between Optical Services and other services that hold identifiable circuit or local end volumes is more accurate than apportioning total component costs to service based on inconsistent volumes.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.34 – IP and ASU

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	IP and ASU services (all unregulated, in Wholesale Residual) were following a cost-plus methodology until 2014/15 when the move onto a new regulatory accounting system (REFINE) meant that the revenues could not be automatically processed to follow the costs. This meant that IP had no revenues to match costs, and ASU revenues were not updated from 2013/14. The proposed methodology is to match costs for IP and ASU with revenues equal to the costs, using PxV input rather than system generated matching.
Effect of the change	The impact is to add £124m revenue into internal Wholesale Residual revenue, with the offset in Retail Residual costs.
Support for the change	The change more accurately reflects the pass-through trade of services to downstream BT and prevents costs not being matched to revenues.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.35 – PPC Factors

Type	Change in allocation basis
Key driver for change	More Cost Causal
Trigger for change	BT Judgement
Description of change	As RBS, Siteconnect and Netstream services in Low and High TISBO hold both regional and national volumes but receive costs from components specific to either national or regional, they should have specific component to service factors to apportion their costs using only the relevant volumes. Currently they have a factor of "1" for both regional and national components, so are being over-apportioned costs due to using both their national and regional volume added together when being apportioned costs.
Effect of the change	Cost apportionment from Trunk services reduce in Low TISBO (-£2m) and High TISBO (-£0.6m), and increase in Regional Trunk (SMP) (+£0.8m) and National Trunk (Wholesale Residual). MCE similarly reduces in Low TISBO (-£10m) and High TISBO (-£4m), increasing in Regional Trunk (+£4m), with the remaining increase in National Trunk within Wholesale Residual.
Support for the change	Tailoring the component to service factors for trunk components will create more cost causal apportionment of costs between the TISBO markets and Regional and National Trunk markets.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.36 – Fibre Resilience Option Services

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The source data used to count the number of fibres required by circuits with Resilience Option 2 (RO2) had been misinterpreted, meaning that volumes were being doubled to reflect the additional resilience fibre when in fact the source volumes were already counting the resilience route. This was leading to an overstatement of fibre costs being allocated to RO2 circuits.
Effect of the change	The change results in the costs allocated to the AISBO Non-WECLA Market reducing by £3m, with increases in ISDN30 of £1m and Low Bandwidth TISBO of £1m.
Support for the change	The issue was identified during 2015/16 and verified with the Openreach Ethernet product line.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.37 – Duct LMD Apportionments and SLU

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	We propose to make three changes to amend how the LMD Class of Work (CoW) is allocated to Backhaul/Access Duct and FTTC tie cables: 1. Amend a formula to accurately calculate the NGA share of LMD CoW. 2. To remove a duplicated process where we journal costs and MCE specifically to BDUK Plant Groups but then include BDUK information within the tagging process of NGA and non-NGA items for LMD apportionments, despite the full BDUK costs already having been calculated. 3. Remap two sub-projects from NGA to Copper due to further information being available highlighting that they are not NGA. £1.5m of Sub Loop Unbundling (SLU) revenue will also be moved from Wholesale Residual to WLA in order to match costs.
Effect of the change	The cost and MCE changes increase apportionments to NGA services. This increase is driven by the LMD apportionment formula amendment, partially offset by the removal of the BDUK duplicated process. The third change, to remove sub-projects, is of low materiality. The largest absolute cost impacts are in WLR (-£0.3m) and WLA (+£0.4m). MCE impacts are larger: WLR (-£9m), WLA (+£14m) and AISBO NW (-£3m).
Support for the change	These changes are intended to increase the accuracy of Duct calculations, and were identified whilst implementing Ofcom's BCMR-directed Duct changes.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.38 – Closure of DTTCE Model (Materials Awaiting Installation)

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	Base DTTCE for apportioning Materials Awaiting Installation (Network Apps) has previously been calculated by a complex and time-consuming model. Instead, we propose a system-generated base drawing on capital stores ledgered in the accounts at CoW level – this will improve the accuracy of the base being calculated as well as reducing the resource needed to produce this base.
Effect of the change	Calculating DTTCE on a system generated basis does impact market level MCE, but there are no market level impacts above the higher of 5% and £1m. WLA MCE impact of c£12m is largest absolute impact to an SMP market.
Support for the change	System-generated bases reduce manual intervention in the production of the RFS and reduce the risk of error.
Key changes in accounting documents	DTTCE base needs to be updated in the AMD

Section 3.39 – Cumulo NRC Valuation

Type	Change in allocation basis
Key driver for change	Consistency with Regulatory Decisions
Trigger for change	Regulatory Decision
Description of change	The change proposed is to update the Specialised Buildings NRC annually rather than use a historic valuation. This value is used as part of the Cumulo methodology calculations.
Effect of the change	The proposed change results in a very small movement in costs against all the markets. Highest movement being £0.3m (0.02%) against the Wholesale Fixed Analogue Exchange Lines market. The Service most impacted is MPF rentals with an increase of £0.2m (0.03%).
Support for the change	This change is in line with Direction 1.6 of Ofcom's Directions for Regulatory Financial Reporting (30 March 2015). All other Cumulo changes proposed in that direction were implemented in 2014/15 and therefore were reflected in the 2014/15 RFS.
Key changes in accounting documents	Cumulo Plant Groups (PG941A and PG942A) described in the AMD will be updated to explain how NRCs of exchange buildings are now updated every year.

Section 3.40 – TISBO Component Rationalisation

Type	Change in allocation basis
Key driver for change	More Cost Causal
Trigger for change	BT Judgement
Description of change	This change proposes a one-to-one alignment of components in the REFINE system to the aggregated "supercomponents" published in the RFS for the TISBO markets. To allow for this change, Protected Path costs will be captured across the standard Private Circuit components rather than specific Protected Path components. The cost will flow to Protected Path services by applying factors to the service volumes.
Effect of the change	Regional Trunk market MCE increases £0.5m with a -£0.4m reduction in High TISBO and -£0.1m reduction in Wholesale Residual. On Costs, no markets are affected by more than £0.1m.
Support for the change	These changes were identified as part of an internal review of component costs. These changes increase the accuracy of the RFS, improve cost causality, and increase the efficiency of RFS production.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.41 – F8 to Class of Work Alignment

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The F8 to CoW mapping in the DRM has been checked and changes to the mapping are needed to ensure GL8 codes in the REFINE system are mapped to the most cost causal CoW. However, the changes apply only for underlying GL8 codes which had zero financial value in 2014/15.
Effect of the change	There is no financial impact from the change.
Support for the change	The change has been driven by an internal review of the REFINE system to ensure accuracy in future years, ensuring that GL8 codes with no value in 2014/15 are still correctly mapped in case their value increases.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.42 – F8 to Finance Type Alignment

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	There are a number of F8 Codes which continued to map to historic ASPIRE sectors during 2014/15. We propose to update these to newer REFINE sectors. The largest value of movement is from Computing (sector BA) to Computing Research and Development (sector B4).
Effect of the change	This change will not have any material impact on the allocation of costs in regulated markets.
Support for the change	There are a number of REFINE DRM hierarchies which on review post-2014/15 RFS publication, were found to contain unsuitable mappings.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.43 – Removal of 21CN Commercial Model

Type	Change in allocation basis
Key driver for change	More Complete
Trigger for change	BT Judgement
Description of change	The current 21CN cost apportionments to a single Wholesale Residual service representing all Harmonised Ethernet and MEA services in REFINE does not allow for accurate analysis of the costs for each individual Harmonised Ethernet or MEAs service, as they are sold over a number of bandwidth sizes. The methodology change is to separate the current service's costs and volumes across nine more granular services in REFINE. This will remove the need to maintain an offline model, "the 21CN Commercial Model", which will now instead be available in REFINE.
Effect of the change	There is no financial impact from the change, as volumes and costs remain within Wholesale Residual.
Support for the change	The change will increase the completeness of the REFINE data for Wholesale Residual.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.44 – Allocation of DRM Treatments for New GL8 Codes

Type	Change in allocation basis
Key driver for change	More Complete
Trigger for change	BT Judgement
Description of change	BT's financial ledgers are updated on a regular basis, with new GL8 codes created on a monthly basis. This change confirms that for 2015/16, we have identified which new GL8 Codes have been populated, and have mapped them to relevant F8 Codes and updated REFINE's DRM for this data.
Effect of the change	There is no 2014/15 financial impact from the change.
Support for the change	This change is required to document the process of mapping the new 2015/16 GL Codes into suitable F8 Codes for processing and production of RFS 2016.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.45 – Closure of Non-Core Retail Residual Model

Type	Change in allocation basis
Key driver for change	More Consistent
Trigger for change	BT Judgement
Description of change	Removal of a detailed non-Core model that apportioned costs within the Retail Residual market. Calculations will instead be system generated.
Effect of the change	There is no financial impact from the change.
Support for the change	As the model apportions costs between the Retail Residual market, it is inefficient to complete a detailed model for these costs.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.46 – EE Internal and External Volumes

Type	Change in allocation basis
Key driver for change	More Consistent
Trigger for change	BT Judgement
Description of change	EE became part of BT Group for the final two months of the 2015/16 financial year. Volumes where BT traded with EE will therefore begin to move from External to Internal. However, any 2015/16 EE volumes will be treated as external for the full accounting year in RFS 2016, with a note confirming this treatment in the RFS. This will be reviewed for 2016/17, when EE will have been part of BT Group for the full year.
Effect of the change	There is no 2014/15 financial impact from the change, as EE became part of BT Group in 2015/16.
Support for the change	Leaving the volumes as external for RFS 2016 will allow for greater comparability of year on year variances, and will allow more time to accurately change reporting systems to reflect EE as internal ahead of RFS 2017.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.47 – EE Assets

Type	Change in allocation basis
Key driver for change	More Cost Causal
Trigger for change	BT Judgement
Description of change	For 2015/16, we will allocate all EE-related assets to the Retail Residual market. The EE assets will attract costs from the Corporate Overhead Activity Groups that are introduced within Section 3.6.
Effect of the change	There is no 2014/15 financial impact from the change, as EE became part of BT Group in 2015/16.
Support for the change	The new methodology has been driven by EE becoming part of BT Group for the final two months of the 2015/16 financial year.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.48 – REFINE Entity and Market Description Changes

Type	Other – Naming Conventions
Key driver for change	More Consistent
Trigger for change	BT Judgement
Description of change	This change proposes REFINE system improvements such as aligning market descriptions in REFINE to those published in the RFS, and the correction of spelling errors and misnamings within REFINE to enhance the functionality of the system.
Effect of the change	There is no financial impact from the change.
Support for the change	This proposed change will increase the accuracy and efficiency of REFINE reporting, which is key to RFS production.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.49 – REFINE DRM Enhancements

Type	Other – System Improvements
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	As REFINE is a new system that was introduced for RFS production and reporting during 2014/15, numerous enhancements have been proposed for 2015/16 to improve the robustness and performance of the system: • Reporting capability has been enhanced in order to improve the availability of data • REFINE data input processing and validation enhancements to allow for more accurate input collation • Additional hierarchies have been added to REFINE in order to allow for production of multiple scenarios at the same time, such as 2016 RFS and 2016 Reconciliation Report data • EOI reporting improvements will allow EOI charges and Notional Creditors to be automatically included in RFS figures
Effect of the change	There is no financial impact from the change.
Support for the change	This proposed change will increase the accuracy and efficiency of REFINE reporting, which is key to RFS production.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.50 – New 21CN CoWs for CCA

Type	Change in allocation basis
Key driver for change	More Complete
Trigger for change	BT Judgement
Description of change	Two new 21CN CoWs were introduced in 2014/15: COR21; and MSAN. As they had been in use for under one year, they did not need to be adjusted for current cost accounting, but for 2015/16 CCA will now be applied, aligning the CoWs to the treatment of all other 21CN CoWs.
Effect of the change	There is no 14/15 financial impact from the change.
Support for the change	The change will ensure that our methodology of applying CCA valuations to 21CN assets is still complete.
Key changes in accounting documents	AMD CCA Annex will require updating to include the new CoWs.

Section 3.51 – Removal of Cumulo Journal and CUMRBTE Base

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The change proposed is to discontinue the use of a REFINE journal that separated the Cumulo rebate from the Cumulo rates charge. This journal is unnecessary because since 2014/15, Cumulo rates and Cumulo rebates both follow the same apportionment methodology. The CUMRBTE base which previously apportioned the rebate will therefore also be removed from REFINE.
Effect of the change	There is no financial impact from the change.
Support for the change	The alignment of Cumulo rebate methodology to the Cumulo rates apportionment methodology was introduced in 2014/15 as it was directed in Ofcom's Directions for Regulatory Financial Reporting publication (30 March 2015). The further change now proposed for 2015/16 will simplify processes and create efficiencies within REFINE.
Key changes in accounting documents	Base Reference CUMRBTE to be deleted from the Base Methodologies section (Section 11) of the AMD.

Section 3.52 – Openreach Own Work Capitalisation

Type	Change in allocation basis
Key driver for change	More Consistent
Trigger for change	BT Judgement
Description of change	The allocation of Openreach costs for F8 code 209631 (General Management and Other Incidentals) needs to be changed because during 2015/16 Openreach have started to use the associated General Ledger code to report Own Work Capitalised (OWC) costs.
Effect of the change	There is no 2014/15 financial impact from the change.
Support for the change	It would not be appropriate to continue the previous methodology for apportioning this F8 code now that the underlying GL code's usage has changed.
Key changes in accounting documents	The entry for base ref DTNCAP2 needs to mention that it is used to allocate costs for F8 code 209631.

Section 3.53 – LRIC Model and Documentation Changes

Type	Change in allocation basis
Key driver for change	More Cost Causal
Trigger for change	BT Judgement
Description of change	There are three categories of LRIC changes: cost category to CVR (Cost Volume Relationship) mappings; cost category renaming; and F8 code to cost category mappings. Amendments are proposed to the "cost category" and "cost volume relationship" mappings used in the LRIC model. These changes include cost categories for Fixed Assets, Capex pay and non-pay, and Opex pay and non-pay. Most of these changes amend the AMD (LRIC R&P) to ensure this is consistent with the assumptions used in the LRIC model. A small number of changes impact both the AMD documentation and the LRIC model. We are proposing to make some changes to the names of cost categories; this is to align names with sector and sub sector descriptions. The final change is to make adjustments to the mapping between F8 codes and LRIC cost categories as follows: 1. Remapping of facilities management charges from other operating income cost category to accommodation cost category; 2. Repointing BDUK grant receipts (operating costs) to match the costs in the OUCs in which they are received.
Effect of the change	There is no financial impact on the 2014/15 published RFS figures from these changes. The cost category to cost volume relationship mapping changes largely affect R&P documentation and have an immaterial impact on LRIC figures at the market level. The renamings have no impact. The impact of repointing facilities management F8 code to cost category mappings reduces the LRIC for most cost categories and the impact on any single component is immaterial. The BDUK grant component LRIC will increase due to repointing BDUK grant receipts.
Support for the change	The need for these changes was identified by analysing the output of the LRIC model after publication of the 2015 RFS. The proposed changes (cost category to CVR mappings and adjustments to F8 to cost category mappings) will be more cost causal.
Key changes in accounting documents	LRIC Relationships and Parameters (R&P) documentation will be updated to reflect these changes.

Section 3.54 – BASENGT

Type	Change in allocation basis
Key driver for change	More Complete
Trigger for change	BT Judgement
Description of change	There is a base in REFINE that adds nominal values to dummy f8 codes that individually represent each Activity Group. By isolating how one of these dummy F8 codes has apportioned to a later level in REFINE, we can see how the Activity Group has apportioned easily. This list of dummy F8 codes needs to be updated to reflect the new Activity Groups introduced for 2015/16 (see Section 3.5 and 3.6), to facilitate easier evaluation of the impacts of these changes at later REFINE levels (e.g. component and service/market).
Effect of the change	There is no financial impact from the change.
Support for the change	This change will ensure the new Activity Groups can be fully evaluated, allowing for greater transparency.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.55 – Model Closures and Model Renaming

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The following REFINE input model process changes are proposed: • PVOTHERS: a miscellaneous PxV revenue input model which holds a number of services has been rationalised, with all entries instead transferred into subject specific PxV models. • Models have been consolidated to improve processes: CTCS LE model has been amalgamated into the CTCS ML model; a model holding redundant and miscellaneous static bases has moved its remaining bases to other models; and two PPC factor models have been merged together. • Netstream 16 Longline Bills model has been closed as it sourced volumes for a service that is now closed.
Effect of the change	There is no financial impact from the change.
Support for the change	The proposed changes will improve the efficiency and accuracy of RFS production without having any financial impact on the published numbers.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.56 – ATM Platform

Type	Change in allocation basis
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	As the ATM network is in an advanced stage of closure and has fully depreciated, our processes will change to no longer update ATM base apportionments annually. We will however keep the existing Plant Groups, Components and Services open as there will be small levels of overheads such as electricity and accommodation still being incurred.
Effect of the change	There is no financial 2014/15 impact from the change.
Support for the change	Given the advanced stage of ATM platform closure, access to capacity management tools that are necessary for updating ATM bases are now restricted. Updating bases would therefore be inaccurate, and also of low materiality. Fixing apportionments using 2014/15 bases will instead bring efficiency and consistency.
Key changes in accounting documents	PDTATM and the ATM component descriptions will be updated in the AMD.

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

AFI	Additional Financial Information
AISBO	Alternative Interface Symmetric Broadband Origination
AMD	Accounting Methodology Document. This sets out the detailed processes by which revenues and costs are attributed to the Wholesale markets and services.
ASU	Advance Service Units
ATM	Asynchronous Transfer Mode
BCMR	Business Connectivity Market Review
BDUK	Broadband Delivery UK
BTSSE	BT Sport Studio and Equipment
CCA	Current Cost Accounting
CCAFIB	A base to apportion Access Fibre CCA Adjustments
CoW	Class of Work
CPE	Customer Premise Equipment
CTCS	Core Transmission Costing System
DRM	Oracle Data Relationship Manager
DTNCNSP	This base attributes the costs relating to POLOs
DTNELSP	A base to apportion Electricity Transfer Charge
DTTCE	A base to apportion Trading Stocks - Network Equipment
EAD	Ethernet Access Direct
EBD	Ethernet Backhaul Direct
EOI	Equivalence of Input
FAMR	Fixed Access Market Review
FTTC	Fibre to the Cabinet
GBV	Gross Book Value
GEA	Generic Ethernet Access
GRC	Gross Replacement Cost
HCA	Historic Cost Accounting
IP	Internet Protocol
ISDN	Integrated Services Digital Network

LFSC	Local Fibre Spine Cable
LLU	Local Loop Unbundling
LMD	Local Main (Exchange Side) Duct
LoB	Line of Business
LRIC	Long Run Incremental Cost
MCE	Mean capital employed is defined as total assets less current liabilities, excluding corporate taxes and dividends payable, and provisions other than those for deferred taxation. The mean is computed from the start and end values for the period.
MISBO	Multi Interface Symmetric Broadband Origination
MPF	Metallic Path Facilities
NBV	Net Book Value
NGA	Next Generation Access
NRC	Net Replacement Cost
ONBS	Openreach Network Backhaul Service
OOI	Other Operating Income
OSA	Optical Spectrum Access

OSEA	Optical Spectrum Extended Access
OUC	Organisational Unit Code
PAC	Previously Allocated Costs
POLOs	Payments to Other Licensed Operators
PPC	Partial Private Circuit
PSTN	Public Switched Telephone Network
PxV	Price multiplied by Volume
RBS	Radio Base Station
REFINE	BT's regulatory accounting system used to produce the RFS
RFS	Regulatory Financial Statements
RO2	Resilience Option 2
ROA	Return on Assets
SMC	Service Management Centre
SMP	Significant Market Power
TISBO	Traditional Interface Symmetric Broadband Origination
TRC	Time Related Charges

BT TSO	BT's Technology, Service & Operations LoB
WACC	Weighted Average Cost of Capital
WBA	Wholesale Broadband Access
WBC	Wholesale Broadband Connect
WECLA	Western, Eastern and Central London Area including Slough
WFAEL	Wholesale Fixed Analogue Exchange Lines
WLA	Wholesale Line Access
WLR	Wholesale Line Rental