2016 Reconciliation Report

in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting the requirements in relation to the reconciliation report

28 October 2016

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Section 1

Introduction to the Reconciliation Report

Section 1.1 – Introduction

Ofcom's Business Connectivity Market Review Directions of 28 April 2016 directed BT to prepare a reconciliation report as referred to in conditions 11.8 and 11.23 and as directed by Ofcom from time to time (the "Reconciliation Report"). This Reconciliation Report is published in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting the requirements in relation to the reconciliation report and accompanying audit opinion (Directions for Business Connectivity Market Review, Ofcom Statement of 28 April 2016, Annex 35) (the "28 April 2016 BCMR Direction").

British Telecommunications plc (the "Company") has, by agreement with BT Group plc, prepared the Current Cost Financial Statements (the "RFS") referred to in this report in accordance with its Accounting Methodology Documentation and the Regulatory Accounting Principles set by Ofcom, by disaggregating balances recorded in the general ledgers and other accounting records of the Group.

This Reconciliation Report sets out changes to regulatory accounting methodologies for 2015-16 and the impact of such changes on the Current Cost Financial Statements 2016 published on 28 October 2016 (the "2016 RFS"). This report also sets out Material Errors and the impact of Material Errors subsequently identified in our Revised Current Cost Financial Statements 2015 published on 2 December 2015 (the "revised 2015 RFS").

The basis of preparation of this Reconciliation Report is consistent with the basis of preparation of the 2016 RFS and of the revised 2015 RFS as stated in each of these RFS, except for the adjustments of methodologies and the corrections of errors set out in sections 4, 5, 6 and 7 of this report.

For the purposes of this report, Ofcom requires the Company to include each and every methodology change and Material Error (i.e. resulting in a correction of any figure in the RFS which exceeds the higher of 5% or £1 million), with their impact. Impact is required to be shown on an aggregated basis for each and every methodology change and Material Error, and at Market and Technical area level for Material Errors and Material Methodology Changes (i.e. resulting in a change in any figure in the RFS which exceeds the highest of 5% or £1 million).

BT is required to publish the reconciliation report for 2016 by 28 October 2016.

We note that in the 2016 RFS there were certain methodology changes and error corrections that necessitated a restatement of the prior year 2014-15 comparative information. These changes are explained within the 2016 RFS in the basis of preparation, along with the main impact upon wholesale markets.

The Reconciliation Report is not a replacement for, nor should it be regarded as an alternative to, BT's published 2016 RFS. The Reconciliation Report is a description of the methodology changes detailed in the Reconciliation Report and an illustration or view of the 2016 RFS had those Statements been produced using 2014-15 methodologies.

We note that due to the complex nature of the report, figures in the impacts sections are individually rounded to the nearest relevant unit (e.g. £m). Totals and sub-totals are calculated based on these rounded figures, but average prices are not. As a result minor summation inconsistencies may arise between schedules. Minor differences between average costs may exist between "published" and "methodology reversal" or "error correction" schedules where there are no apparent changes to fully allocated costs (FAC). These differences are more pronounced on low volume services and are solely the result of non-material movements in costs which are eliminated on rounding.

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 – the directors' Statement of Responsibility which acknowledges that this report has been prepared in accordance with the 28 April 2016 BCMR Direction and based upon the published 2016 RFS and the revised 2015 RFS.
- Section 3 – provides our auditors' opinions on the Reconciliation Report, for both changes made to methodologies and the correction of errors.

Methodology reversals 2016 narrative

- Section 4 – sets out the reporting requirements for this Reconciliation Report with regards to methodology reversals and compares this to the methodology changes set out in the "Change Control Notification in accordance with SMP Condition 11.21 of Ofcom's Business Connectivity Market Review (BCMR) Final Statement" published 28 April 2016 published on 27 June 2016 ("Change Control Notification"). We identify here any differences between the two reports and the reasons for these differences.
- Section 5 – provides an explanation of the reported methodology changes made in the 2016 RFS which have been reversed as part of this report along with a summary of their impact.

Error corrections 2015 narrative

- Section 6 – sets out the reporting requirements for this Reconciliation Report with regards to the correction of errors subsequently identified in the revised 2015 RFS.
- Section 7 – provides an explanation of the reported error corrections along with a summary of their impact.

Annex 1 – Methodology reversals 2016 impacts

Published as a separate document on our website is the methodology reversal section of this report. This includes the following subsections:

- Methodology reversal impacts section 1 – provides the illustrative difference of individual methodology changes on costs and mean capital employed (MCE) attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market (as per section 5.1).
- Methodology reversal impacts section 2 – compares the consolidated results of the Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market as reported for the year ended 31 March 2016, to the results for those markets had certain changes to attribution and valuation methodologies not been applied.
- Methodology reversal impacts section 3 – compares the attribution of wholesale current costs and wholesale current cost MCE by individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market as reported for the year ended 31 March 2016, to the results had certain changes to the attribution and valuation methodologies not been applied.
- Methodology reversal impacts section 4 – compares the Fully Allocated Cost results of the individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets at a service level as reported for the year ended 31 March 2016, to the results for those markets had certain changes to the attribution and valuation methodologies not been applied.
- Methodology reversal impacts section 5 – compares the Network Activity Statement as reported for the year ended 31 March 2016 to the Network Activity Statement had certain changes to the attribution and valuation methodologies not been applied.

Annex 2 – Error corrections 2015 impacts

Published as a separate document on our website is the error correction section of this report. This includes the following subsections:

- Error correction impacts section 1 – provides the illustrative difference of individual error corrections on costs and MCE attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market (as per section 7.1).
- Error correction impacts section 2 – compares the consolidated results of the Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market as reported for the year ended 31 March 2015, to the results for those markets had certain error corrections been made.

- Error correction impacts section 3 – compares the attribution of wholesale current costs and wholesale current cost MCE by individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market as reported for the year ended 31 March 2015, to the results for those markets had certain error corrections been made.
- Error correction impacts section 4 – compares the Fully Allocated Cost results of the individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets at a service level as reported for the year ended 31 March 2015, to the results for those markets had certain errors been corrected.
- Error correction impacts section 5 – compares the Network Activity Statement as reported for the year ended 31 March 2015 to the Network Activity Statement had certain errors been corrected.

Section 2

Statement of Responsibility

Section 2.1 – Statement of Responsibility

Ofcom's Business Connectivity Market Review Directions of 28 April 2016 directed BT to prepare a reconciliation report as referred to in condition 11.23 and as directed by Ofcom from time to time (the "Reconciliation Report").

This Reconciliation Report is published in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting the requirements in relation to the reconciliation report and accompanying audit opinion (Directions for Business Connectivity Market Review, Ofcom Statement of 28 April 2016, Annex 35) (the "28 April 2016 BCMR Direction").

British Telecommunications plc (the "Company") has, by agreement with BT Group plc, prepared the Current Cost Financial Statements referred to in this report in accordance with its Accounting Methodology Documentation and the Regulatory Accounting Principles set by Ofcom, by disaggregating balances recorded in the general ledgers and other accounting records of the Group.

This Reconciliation Report addresses the impact of methodology changes made during the 2015-16 year upon the Current Cost Financial Statements 2016 published on 28 October 2016 (the "2016 RFS"). It also addresses the impact of errors identified subsequent to publishing the revised Current Cost Financial Statements 2015 published on 2 December 2015 (the "revised 2015 RFS").

The directors confirm to the best of their knowledge that the Reconciliation Report for the year ended 31 March 2016 has been prepared in accordance with the 28 April 2016 BCMR Direction based upon the 2016 RFS and upon the revised 2015 RFS.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Approved by the Board of Directors and signed on its behalf by:

Glyn Parry

Director, British Telecommunications plc

28 October 2016

Section 3
Audit Report

Report of the Independent Auditors to British Telecommunications plc and Ofcom issued in accordance with Ofcom's Direction dated 28 April 2016 under section 49 of the Communications Act 2003 setting the requirements in relation to the Reconciliation Report

1. We have examined the "2016 Reconciliation Report in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting out the requirements in relation to the reconciliation report" (the "Reconciliation Report").

2. The Reconciliation Report is prepared by British Telecommunications plc (the "Company") under the current cost convention in accordance with:

- the direction dated 28 April 2016 under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting requirements in relation to the Reconciliation Report (the "Direction");
- in respect of information for the year ended 31 March 2016, the Accounting Methodology Documents and the Wholesale Catalogue dated 28 October 2016 and the methodology changes described in sections 4 and 5 on pages 12 to 46 (the "2016 Basis of Preparation");
- in respect of information for the year ended 31 March 2015, the basis of preparation described in Sections 6 and 7 on pages 47 to 56 which incorporates the Accounting Methodology Documents and the Wholesale Catalogue dated 31 July 2015 (the "2015 Basis of Preparation").

3. The Reconciliation Report comprises the following:

- the Introduction to the Reconciliation Report on pages 3 to 6;
- the Reconciliation report requirements and content – methodologies, the Explanation of methodology changes made in the 2016 RFS, the Reconciliation report requirements and content – error corrections and the Explanation of reported material error corrections on pages 12 to 56;
- the Glossary on pages 57 to 60;
- Annex 1 – Methodology reversals 2016 impacts (the "2016 Methodology Change Schedules"); and
- Annex 2 – Error corrections 2015 impacts (the "2015 Error Correction Schedules").

Directors' responsibility for the Reconciliation Report

4. As described on page 8 the directors are responsible for preparing and approving the Reconciliation Report.

Auditors' Responsibility

5. Our responsibility is to audit and express an opinion on the 2016 Methodology Change Schedules and the 2015 Error Correction Schedules in accordance with the Direction, applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the Company and Ofcom and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

6. We report our opinions as to whether:

- the 2016 Methodology Change Schedules as a whole are properly prepared in accordance with the 2016 Basis of Preparation and comply with the requirements of the Direction. We do not report on the preparation of any individual market group or market, or on the impact of individual methodology changes.
- the 2015 Error Correction Schedules as a whole are properly prepared in accordance with the 2015 Basis of Preparation and comply with the requirements of the Direction. We do not report on the preparation of any individual market group or market, or on the impact of individual error corrections.

7. In addition we report if in our opinion; the Company has not kept proper accounting records; if we have not received all the information and explanations we require for our examination; or if information specified by the form and content requirements of the Direction is not disclosed.

8. We read the other financial and non-financial information presented in the Reconciliation Report to identify material inconsistencies with the 2016 Methodology Change Schedules and 2015 Error Correction Schedules and to

identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the examination. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. The other information comprises the Introduction to the Reconciliation Report on pages 3 to 6, and Section 8 - Glossary on pages 57 to 60.

Basis for opinions

9. As explained in Section 1.1 on page 4 the Company has, by agreement with BT Group plc, its ultimate parent company, prepared the Reconciliation Report by disaggregating balances recorded in the general ledgers and other accounting records of BT Group plc and its subsidiaries ("the Group") maintained in accordance with the Companies Act 2006 and used, in accordance with that Act, for the preparation of the Company's statutory consolidated financial statements for the years ended 31 March 2016 and 31 March 2015 ("the Statutory Financial Statements").

10. PricewaterhouseCoopers LLP audited the Statutory Financial Statements on which they expressed unmodified audit opinions. Their audit reports on the Statutory Financial Statements describes the scope of their audit of those Statutory Financial Statements.

11. In conducting our subsequent examination of the Reconciliation Report, and in providing the opinions in paragraph 13 below, we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audits of the Statutory Financial Statements.

12. Having regard to the above:

(a) we conducted our examination of the Reconciliation Report in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our work involved obtaining evidence about the amounts and disclosures in the Reconciliation Report.

(b) we planned and performed our examination of the Reconciliation Report so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 2016 Methodology Change Schedules as a whole are properly prepared in accordance with the 2016 Basis of Preparation and that the 2015 Error Correction Schedules as a whole are properly prepared in accordance with the 2015 Basis of Preparation. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Reconciliation Report in accordance with the form and content requirements of the Direction.

Opinions

13. In our opinion:

(a) the 2016 Methodology Change Schedules as a whole have been properly prepared in accordance with the 2016 Basis of Preparation and comply with the requirements of the Direction; and

(b) the 2015 Error Correction schedules as a whole have been properly prepared in accordance with the 2015 Basis of Preparation and comply with the requirements of the Direction.

14. We have no matters to report in respect of our responsibilities explained in paragraphs 7 and 8.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 October 2016

Section 4

Reconciliation report requirements and content – methodologies

Section 4.1 – BT's reporting requirements in respect of changes to methodologies

This Reconciliation Report is published in accordance with Ofcom's BCMR Directions referred in Section 1.1.

The 28 April 2016 Direction provides that BT must prepare a reconciliation report which sets out:

"i. In relation to changes to the Regulatory Accounting Methodology:

a) each and every change;

b) the impact of all changes on all figures presented in the Regulatory Financial Statements, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount and as a percentage change;

c) the impact of each Material Change at the Markets and Technical Areas Level, by setting out, for each Material Change separately, the difference between the Current Year Figures and the Current Year Figures had such Material Change not been made, expressed as an absolute amount and as a percentage change;

d) the impact of changes which are not Material Changes at the Markets and Technical Areas Level, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount and as a percentage change."

"Material Change" is defined as follows:

"'Material Change' means a change in any element of the Regulatory Accounting Methodology which results in a change (be it positive or negative) in any figure in the Regulatory Financial Statements which exceeds the higher of 5% or £1 million. The percentage change in a figure shall be calculated by taking the value of the affected figure before the change in the Regulatory Accounting Methodology is applied, and subtracting from it, the value of the same figure after the change in the Regulatory Accounting Methodology is applied, and then dividing this result by the former value."

We published the 'Change Control Notification in accordance with SMP Condition 11.21 of Ofcom's Business Connectivity Market Review (BCMR) Final Statement published 28 April 2016' (the "Change Control Notification") on 27 June 2016. In the Change Control Notification we published a list of each and every methodology change we planned to make for the year ended 31 March 2016.

This Reconciliation Report follows from the Change Control Notification and the additional changes described below; it looks in detail at the impacts of 2015-16 methodology changes by comparing them with how the RFS would look if we had applied 2014-15 methodologies, using 2015-16 data (e.g. volumes and prices).

Section 4.2 – Differences between the Change Control Notification and this Reconciliation Report

There are some differences between the Change Control Notification and the Reconciliation Report. These differences and reasons for these are detailed below.

Section 4.2.1 – Changes not reversed in this Reconciliation Report

There are several non-material changes which we included in our Change Control Notification but which we have not reversed in this report. These, and the associated rationale for them not being reversed, are discussed in detail in section 5.27.

Section 4.2.2 – Changes to methodologies after the Change Control Notification

There were a number of changes to our methodologies made after 27 June 2016 which were included in the 2016 RFS and reversed in this report.

Each of these methodology changes is described in turn below:

- *Ethernet Price and Volume Alignment:* During 2014-15 Ethernet connection revenues were calculated based on volumes and prices in force on delivery. For 2015-16 we instead used the price in force three months prior to delivery as a better estimate of the price of the order. We notified

Ofcom, via an exchange of letters, of this methodology change 18 October 2016.

- *BDUK and NGA REFINE Mapping:* We changed how we allocate BDUK costs and funding to BDUK-specific plant groups. We also changed NGA E-side copper component costs to allocate to FTTC rather than to FTTC and FTTP. These changes had no effect on market revenues or costs. We notified Ofcom, via an exchange of letters, of this methodology change 18 October 2016.
- *WBC Rentals and Bandwidth, Market B:* External customers for Wholesale Broadband Connect in the WBA Market B pay a charge set by commercial negotiation, which may be below the list price. The internal charge however was based on the price, not on a charge that an external customer of similar size would pay. We have modelled the price that such a customer would pay by setting the internal charge equal to fully allocated costs including a return on capital employed for the relevant service. This change is described in Section 5.25 of this report. We notified Ofcom, via an exchange of letters, of this methodology change 18 October 2016.
- *Matching of Wholesale Residual costs and revenue:* We changed our methodology to match costs and revenue in the Wholesale Residual market. Before we made the change, there were Sales, General and Administrative costs accounted for in Wholesale Residual that related to services that were classified as Retail Residual products. Therefore we moved these costs to Retail Residual. In addition, certain internally consumed services within Wholesale Residual did not have matching revenue. We created an internal transfer charge from Wholesale Residual to Retail Residual at fully allocated cost including a return on capital employed. This change is described in Section 5.26 of this report. We notified Ofcom, via an exchange of letter, of this methodology change 18 October 2016.

Of the changes to methodologies after the Change Control Notification, the ‘WBC rentals and Bandwidth’ and the ‘Matching of Wholesale Residual costs and revenue’ change affected published RFS figures by the highest of 5% and £1m.

Section 5

Explanation of methodology changes made in the 2016 RFS

Section 5.1 – Methodology reversal impacts summary

The following two tables summarise the illustrative difference of individual methodology changes on costs and on MCE attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market.

Methodology changes that had significant revenue implications were as follows:

- *WBC Rentals and Bandwidth, Market B:* The reversal of this methodology change would increase 2015-16 internal Wholesale Residual revenue by £618m with an equivalent increase in Retail Residual costs.
- *Matching of Wholesale Residual costs and revenue*: Reversing this methodology for 2015-16 would reduce internal Wholesale Residual revenue by £223m. As this would be an internal charge, the offset would be reduced costs in Retail Residual.
- *Internal Interconnect*: The reversal of this methodology change and re-introducing revenue for internal Interconnect services would increase internal Interconnect market revenue by £4m. As this would be an internal charge, the offset would be increased costs in Retail Residual.
- *Fibre Access in WBA Market A*: Removing the fibre access revenue from WBA Market A in 2015-16 would reduce WBA Market A revenue by £84m. Wholesale Residual revenue would increase to offset this change as the fibre access service volumes would revert to WBA Market B.
- *POLO Cost and Revenues:* This methodology removed both costs and revenue from Wholesale Residual. Reversal would increase 2015-16 internal revenue in Wholesale Residual by £57m with an equivalent increase in costs in Retail Residual.

Operating Costs

		WFAEL	WLA	ISDN2	ISDN30	Low Bandwidth TISBO	Medium Bandwidth TISBO	High Bandwidth TISBO	TI Regional Trunk	Point of Handover	AISBO Non WECLA	AISBO WECLA	MISBO Non WECLA	Call origination	Call termination	Interconnect	WBA - Market A	Total SMP Markets	Wholesale Residual	EOI Eliminations	Roudning	Total Wholesale Markets
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Published RFS 2015/16	**1,038**	**1,316**	**47**	**81**	**168**	**7**	**7**	**11**	**3**	**365**	**28**	**84**	**101**	**93**	**24**	**198**	**3,571**	**2,601**	**(941)**	**1**	**5,232**
	Material Methodology Changes Directed by Ofcom:																					
1	Electricity	(2)	(4)	-	(3)	1	1	-	1	-	1	-	1	(4)	(3)	(1)	16	4	12	-	-	16
2	Backhaul/Core Duct	-	1	-	-	-	-	-	-	-	(3)	-	-	-	-	-	-	(2)	3	-	-	1
3	Openreach Software	-	(2)	-	-	-	-	-	-	-	3	-	-	-	-	-	-	1	(1)	-	-	-
4	BT TSO Software	2	7	-	-	1	-	-	-	-	3	-	2	-	-	-	(2)	13	(16)	-	-	(3)
5	Group Property and Fixed Assets	14	30	-	(1)	(2)	-	-	-	-	3	-	1	(5)	(5)	(1)	(3)	31	(16)	-	-	15
6	Overheads	63	73	2	2	1	-	-	-	-	25	1	6	(2)	(2)	1	1	171	(25)	-	-	146
7	Access Fibre	-	(4)	-	-	-	-	-	-	-	2	-	-	-	-	-	-	(2)	-	-	-	(2)
8	Service Management Centre	3	9	-	-	-	-	-	-	-	1	-	-	-	-	-	-	13	(14)	-	-	(1)
9	CPE Switch	13	14	1	-	-	-	-	-	-	3	-	-	-	-	-	-	31	(34)	-	-	(3)
	Sub total - Ofcom driven material changes	**93**	**124**	**3**	**(2)**	**1**	**1**	**-**	**1**	**-**	**38**	**1**	**10**	**(11)**	**(10)**	**(1)**	**12**	**260**	**(91)**	**-**	**-**	**169**
	Material Methodology Changes Driven by BT:																					
10	Internal Interconnect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	BDUK	(8)	12	-	-	-	-	-	-	-	(1)	-	-	-	-	-	-	3	(2)	-	-	1
12	POLO Costs and Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	110	-	-	110
13	Fibre Access in WBA Market A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(22)	(22)	4	-	-	(18)
14	Copper Cancellations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Ethernet Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Amendments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	RBS Volumes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	BT Sport MCE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	TRC Direct CoWs	(1)	(1)	-	-	-	-	-	-	-	(1)	-	-	-	-	-	-	(3)	3	-	-	-
20	Optical Services	-	-	-	(1)	(1)	-	-	-	-	(16)	(2)	18	-	-	-	-	(2)	1	-	-	(1)
21	PPC Factors	-	-	-	-	2	-	-	(1)	-	-	-	-	-	-	-	-	1	(1)	-	-	-
22	Fibre Resillience	-	-	-	(1)	(1)	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-
23	Duct LMD Apportionments and SLU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	WBC Rebates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)	2	-	-	-
25	Matching Wholesale Residual Costs and Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195	-	-	195
	Sub total - BT driven material changes	**(9)**	**11**	**-**	**(2)**	**-**	**-**	**-**	**(1)**	**-**	**(16)**	**(2)**	**18**	**-**	**-**	**-**	**(24)**	**(25)**	**312**	**-**	**-**	**287**
	Sub total - All material changes	**84**	**135**	**3**	**(4)**	**1**	**1**	**-**	**-**	**-**	**22**	**(1)**	**28**	**(11)**	**(10)**	**(1)**	**(12)**	**235**	**221**	**-**	**-**	**456**
	Cumulative non-material changes, interactions & roundings	(10)	(6)	(1)	3	1	-	-	1	-	9	3	(2)	-	1	1	2	2	35	(16)	-	21
	Methodology Reversal RFS 2015-16	**1,112**	**1,445**	**49**	**80**	**170**	**8**	**7**	**12**	**3**	**396**	**30**	**110**	**90**	**84**	**24**	**188**	**3,808**	**2,857**	**(957)**	**1**	**5,709**

Mean Capital Employed

		WFAEL	WLA	ISDN2	ISDN30	Low Bandwidth TISBO	Medium Bandwidth TISBO	High Bandwidth TISBO	TI Regional Trunk	Point of Handover	AISBO Non WECLA	AISBO WECLA	MISBO Non WECLA	Call origination	Call termination	Interconnect	WBA - Market A	Total SMP Markets	Wholesale Residual	EOI Eliminations	Rounding	Total Wholesale Markets
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Published RFS 2015/16	**4,755**	**4,357**	**161**	**211**	**385**	**26**	**24**	**44**	**6**	**1,596**	**98**	**250**	**161**	**146**	**27**	**363**	**12,610**	**1,723**	**-**	**-**	**14,333**
	Material Methodology Changes Directed by Ofcom:																					
1	Electricity	(17)	-	(2)	(8)	(3)	2	-	1	-	1	-	2	(13)	(12)	(2)	34	(17)	16	-	-	(1)
2	Backhaul/Core Duct	(18)	(14)	(1)	(1)	1	(2)	(1)	14	-	(44)	(1)	(8)	(3)	(3)	(1)	1	(81)	78	-	-	(3)
3	Openreach Software	-	(7)	-	-	-	-	-	-	-	8	1	1	-	-	-	-	3	(3)	-	-	0
4	BT TSO Software	1	5	-	-	1	-	-	-	-	2	-	1	-	-	-	(1)	9	(12)	-	-	(3)
5	Group Property and Fixed Assets	(10)	(11)	(1)	1	11	1	-	1	-	1	-	-	3	3	3	(2)	-	15	-	-	15
6	Overheads	7	11	-	-	(1)	-	-	-	-	3	-	-	(1)	(1)	-	(1)	17	(12)	-	-	5
7	Access Fibre	-	(42)	-	(4)	(3)	-	-	-	-	42	3	1	-	-	-	-	(3)	3	-	-	(0)
8	Service Management Centre	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	0	-	-	(1)
9	CPE Switch	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	3	-	-	2
	Sub total - Ofcom driven material changes	**(37)**	**(60)**	**(4)**	**(12)**	**6**	**1**	**(1)**	**16**	**-**	**13**	**3**	**(3)**	**(14)**	**(13)**	**-**	**31**	**(74)**	**87**	**-**	**-**	**13**
	Material Methodology Changes Driven by BT:																					
10	Internal Interconnect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0)	-	-	(0)
11	BDUK	(41)	39	(1)	-	-	-	-	-	-	1	-	-	-	-	-	-	(2)	1	-	-	(1)
12	POLO Costs and Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Fibre Access in WBA Market A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)	10	-	-	0
14	Copper Cancellations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Ethernet Revenue	-	-	-	-	-	-	-	-	-	(1)	-	-	-	-	-	-	(1)	1	-	-	(0)
16	Amendments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	RBS Volumes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	BT Sport MCE	-	29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29	-	-	-	29
19	TRC Direct CoWs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Optical Services	-	-	-	(4)	(3)	-	-	-	-	(35)	(3)	44	-	-	-	-	(1)	1	-	-	0
21	PPC Factors	-	-	-	-	6	-	-	(3)	-	-	-	-	-	-	-	-	3	(4)	-	-	(1)
22	Fibre Resillience	-	-	-	(5)	(3)	-	-	-	-	11	-	(1)	-	-	-	-	2	(2)	-	-	0
23	Duct LMD Apportionments and SLU	(8)	1	-	-	1	-	-	-	-	3	-	1	-	-	-	1	(1)	0	-	-	(1)
24	WBC Rebates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)	38	-	-	37
25	Matching Wholesale Residual Costs and Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	44	-	-	44
	Sub total - BT driven material changes	**(49)**	**69**	**(1)**	**(9)**	**1**	**-**	**-**	**(3)**	**-**	**(21)**	**(3)**	**44**	**-**	**-**	**-**	**(10)**	**18**	**90**	**-**	**-**	**108**
	Sub total - All material changes	**(86)**	**9**	**(5)**	**(21)**	**7**	**1**	**(1)**	**13**	**-**	**(8)**	**-**	**41**	**(14)**	**(13)**	**-**	**21**	**(56)**	**178**	**-**	**-**	**122**
	Cumulative non-material changes, interactions & roundings	24	27	2	5	6	-	1	-	(1)	1	-	(2)	1	1	-	(1)	64	11	-	1	76
	Methodology Reversal RFS 2015-16	**4,693**	**4,393**	**158**	**195**	**398**	**27**	**24**	**57**	**5**	**1,589**	**98**	**289**	**148**	**134**	**27**	**383**	**12,618**	**1,912**	**-**	**1**	**14,531**

Section 5.2 – Electricity

Reference Number	1 (Change Control Notification 3.1)
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 was created, which moved costs out of AG106 (Group Property Activity Group) and into new dedicated electricity bases. The new model split the total electricity costs into ten categories and each category has 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 from introducing the methodology were to reduce costs in Wholesale Broadband Access Market A and increase costs in Call Termination and Call Origination.
Support for the change	The methodologies adopted 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."

Section 5.3 – Backhaul/Core Duct

Reference number	2 (Change Control Notification 3.2)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Non-access Duct costs were previously split between 'core' and 'backhaul' based on the number of live circuits. The new methodology changes the allocation to also use fibre lengths. Furthermore, the BT TSO ledgered costs for core duct have been 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 increased (WFAEL, WLA and AISBO Non-WECLA in particular), offset by Wholesale Regional Trunk market MCE reduction 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."

Section 5.4 – Openreach Software

Reference number	3 (Change Control Notification 3.3)
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 now attributed to the cost categories that represent the costs of those specific products or assets. All other product related Openreach software costs are attributed using the Openreach PAC methodology.
Effect of the change	The methodology change moved costs between Openreach's SMP markets, moved some costs from Openreach SMP markets into residual, and reattributed costs into Wholesale SMP markets (spread across WBA, Calls and TISBO markets). Costs in the WLA market increase whereas AISBO non-WECLA costs reduced.
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 5.4 only covers the Openreach impact. Section 5.5 covers BT TSO Software.

Section 5.5 – BT TSO Software

Reference number	4 (Change Control Notification 3.4)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	The previous BT TSO Software allocation was 100% to AG102 (BT TSO Operational Costs). Ofcom's Business Connectivity Market Review directed 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 continued to be apportioned to AG102) iii) software used by BT TSO support functions (which we apportion to AG103) iv) other specific Lines of Business (LoBs), which we apportion to LoB-specific products or Activity Groups.
Effect of the change	The Ofcom proposals reduced operating costs and MCE in regulated markets. FAMR and BCMR markets had the largest cost reductions, whilst WBA and Residual had cost increases.
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 5.5 only covers the BT TSO impact. Section 5.4 covers Openreach Software.

Section 5.6 – Group Property and Fixed Assets

Reference number	5 (Change Control Notification 3.5)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	The change of methodology for the AG106 process, which previously allocated property costs for BT/non-BT office and specialised buildings. This change included the removal of the Anchor Tenant Principle. To comply with Ofcom's Business Connectivity Market Review direction we 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 new methodology resulted in an overall decrease of SMP markets' total CCA operating cost, particularly to the Fixed Access Markets. Narrowband costs increased in Call Termination and Call Origination.

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."

Section 5.7 – Overheads

Reference number	6 (Change Control Notification 3.6)
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 directed a change to the previous allocation for: • AG112 (Corporate Overheads), • AG103 (BT TSO functions), • AG409 (BT Wholesale Pay & ROA) New Activity Groups were introduced in order to capture corporate overheads and BT TSO costs: • AG115 BT Factorised Pay - excludes P646 (replaced AG112) • AG116 BT Factorised Pay - Includes P646 (replaced AG112) • AG117 BT Group PAC – excludes P646 (replaced AG112) • AG118 BT Group PAC – Includes P646 (replaced AG112) • AG119 BT TSO PAC (replaces AG103) • AG409 was changed to use PAC. New models were created to capture specific cost attributions for: • Personal Computing • Insurance • Employee Broadband • Ofcom Administration Fee Additionally, the Licensing team's (OUC TUC) costs were apportioned to Residual.
Effect of the change	The new methodologies change the current allocation process and impact all SMP markets' costs. WLA, WFAEL, AISBO Non-WECLA and MISBO Non-WECLA all had significant Total CCA Operating Cost reductions.
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.

Section 5.8 – Access Fibre

Reference number	7 (Change Control Notification 3.8)
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. Previously, both costs and MCE for spine and distribution were 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 are allocated based on the number of distribution fibres for NGA and non-NGA.
Effect of the change	Total CCA Operating Costs: WLA costs increase, partly offset by AISBO Non-WECLA costs decreasing. MCE: WLA MCE increases, with the largest offsetting decreases in AISBO Non-WECLA, ISDN30 and Low TISBO.
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."

Section 5.9 – Service Management Centre

Reference number	8 (Change Control Notification 3.16)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory Decision
Description of change	The methodology change repointed Service Management costs (SMC) from regulated and residual markets to these residual services: • Project Services • Project Simple (SMC people working on BT Wholesale products such as broadband)
Effect of the change	The change increased costs in the Wholesale (Openreach) Residual Market and reduced costs in the Openreach regulated markets.
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."

Section 5.10 – CPE Switch

Reference number	9 (Change Control Notification 3.20)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	In the 2015 RFS, the Openreach Customer Premises Equipment (CPE) services in the residual markets had revenue but had no matching costs. This change repointed costs from regulated to residual markets and within residual markets.
Effect of the change	Costs reduced in WFAEL, WLA and AISBO Non-WECLA. The offset was 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."

Section 5.11 – Internal Interconnect

Reference number	10 (Change Control Notification 3.10)
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The new methodology removed 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 were for circuits that are not billed externally, we no longer assume that they are traded internally.
Effect of the change	The removal of internal revenue from the Interconnect market reduced the market revenue. SMP market level costs were not impacted, but there was a reduction in Retail Residual costs to offset the reduction in Interconnect market revenues.
Support for the change	This change increased the accuracy of the RFS, and followed a detailed review of the systems that provide circuit volumes for RFS production.

Section 5.12 – BDUK

Reference number	11 (Change Control Notification 3.12)
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 methodology changed the calculation of BDUK depreciation to more accurately apply the charge on a monthly basis, from the start of the quarter after the asset was registered. Improvements were also 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 were made to ensure funding to Northern Ireland is captured to allow for appropriate apportionment of BDUK funding to Plant Groups. Improvements were also made to the attribution of the release of funding received. In the 2015 RFS this cost was attributed over a number of components. As this relates solely to BDUK funding this cost is now attributed to the Fibre Rollout Funding component only. Finally, in 2015-16 BT TSO begun to receive funding for BDUK, so this was added to the BDUK processes for 2015-16 in order to include funding within our intended processes that previously only applied to Openreach OUCs.
Effect of the change	Costs under the new methodology increased in WFAEL, and reduced in WLA. There was a smaller cost increase in AISBO non-WECLA. MCE predominantly moved between WFAEL and WLA, with an increase in WFAEL offset by a reduction in WLA.
Support for the change	These changes were identified as part of an internal BT review of the BDUK depreciation calculations made in 2014-15.

Section 5.13 – POLO Cost and Revenues

Reference number	12 (Change Control Notification 3.13)
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 historical information. All costs are now apportioned to Retail Residual to simplify this residual apportionment. Matching revenue will also be removed from Wholesale Residual.
Effect of the change	Cost and the matching revenues reduce in Wholesale Residual. DTNCNSPO does not have any MCE.
Support for the change	The changes simplified the production of the RFS, increasing efficiency and accuracy.

Section 5.14 – Fibre Access in WBA Market A

Reference number	13 (Change Control Notification 3.15)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory Decision
Description of change	Previously within the WBA markets Fibre Access WBC was only reported in Market B. Volumes now show that a material volume of Fibre Access is being used in Market A and therefore the methodology change was implemented so that Fibre Access WBC is reported in the published RFS within Market A.
Effect of the change	The change resulted 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. Prices for services in Market B have a rebate applied whereas Market A volumes do not. Moving volumes from Market B to Market A therefore caused an overall increase in WBA revenues. The offset of this was an increase in Retail Residual costs. Costs, particularly EOI charges, were redistributed from WBA Market B to WBA Market A.
Support for the change	11 (Change Control Notification 3.15)

Section 5.15 – Copper Cancellations

Reference number	14 (Change Control Notification 3.17)
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	Cancellations revenue was repointed to WLR, WLA, ISDN2 and ISDN30 markets from Openreach Residual, in order to match costs.
Effect of the change	Regulated market revenues increased (WFAEL and WLA) with the offset being a reduction in residual revenue.
Support for the change	We discovered that in the 2015 RFS there were Cancellation revenue items in residual that had no matching costs.

Section 5.16 – Ethernet Revenues

Reference number	15 (Change Control Notification 3.18)
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 2015 RFS. However the costs that related to this revenue were not booked to those services. Therefore this change moved the revenue from the residual services to match the costs.
Effect of the change	Moved revenue from Residual largely to the Ethernet Markets but also to other residual services. No impact on costs.
Support for the change	We discovered that in the 2015 RFS there were a number of Ethernet revenue items in residual that had no matching costs.

Section 5.17 – Amendments

Reference number	16 (Change Control Notification 3.21)
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 was previously in the Residual market – revenue only, no cost. The methodology change moved the amendment revenue out of these services and into the WLR market to the existing service 'Other WLR'.
Effect of the change	Revenue moved from residual to WFAEL, increase revenue on the reported service "Other WLR".
Support for the change	We discovered that in the 2015 RFS there were a number of services reported in residual that should have been reported in regulated markets.

Section 5.18 – RBS Volumes

Reference number	17 (Change Control Notification 3.29)
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 methodology change corrected the volumes and revenues.
Effect of the change	Revenue reduced in the Low TISBO market, reducing the reported external RBS service revenue.
Support for the change	This issue was identified as part of our 2016 RFS volume preparation process, where we review year on year volumes.

Section 5.19 – BT Sport MCE

Reference number	18 (Change Control Notification 3.30)
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 resulted in 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.

Section 5.20 – TRC Direct CoWs

Reference number	19 (Change Control Notification 3.31)
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 had been missing a number of direct CoWs, thus apportioning too much cost from general overheads to TRCs.
Effect of the change	The change increased costs in WFAEL, WLA and AISBO Non-WECLA, with smaller increases in other SMP markets. This was offset by a reduction in Wholesale Residual costs.
Support for the change	The change in calculation to include all CoW costs directly apportioning to TRC Plant Groups increased the accuracy of the cost attribution.

Section 5.21 – Optical Services

Reference number	20 (Change Control Notification 3.33)
Key driver for change	More Accurate and More Cost Causal
Trigger for change	BT Judgement
Description of change	Two new methodologies were introduced 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, were changed 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 now 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 resulted in less cost being allocated to the MISBO Non-WECLA market and an increase in AISBO Non-WECLA and AISBO WECLA.
Support for the change	Both Optical Service changes increased RFS 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.

Section 5.22 – PPC Factors

Reference number	21 (Change Control Notification 3.35)
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. Previously they had a factor of "1" for both regional and national components, so were being over-apportioned costs due to using both their national and regional volume added together when being apportioned costs.
Effect of the change	Cost and MCE apportionment to Trunk services reduced in Low TISBO and High TISBO, and increased in Regional Trunk (SMP) and National Trunk (Wholesale Residual).
Support for the change	Tailoring the component to service factors for trunk components created more cost causal apportionment of costs between the TISBO markets and Regional and National Trunk markets.

Section 5.23 – Fibre Resilience Option Services

Reference number	22 (Change Control Notification 3.36)
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 resulted in the costs allocated to the AISBO Non-WECLA Market reducing, with increases in ISDN30 and Low Bandwidth TISBO.
Support for the change	The issue was identified during the preparation of the 2016 RFS, and has improved the accuracy of the RFS.

Section 5.24 – Duct LMD Apportionments and SLU

Reference number	23 (Change Control Notification 3.37)
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	We made three changes to amend how the LMD Class of Work (CoW) was allocated to Backhaul/Access Duct and FTTC tie cables: 1. Amended a formula to accurately calculate the NGA share of LMD CoW. 2. Removed 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. Remapped two sub-projects from NGA to Copper due to further information being available highlighting that they are not NGA. Sub Loop Unbundling (SLU) revenue was also moved from Wholesale Residual to WLA in order to match costs.
Effect of the change	This methodology change increased MCE in WFAEL. The largest offsetting decrease in MCE was in AISBO Non-WECLA.
Support for the change	These changes were intended to increase the accuracy of Duct calculations, and were identified whilst implementing Ofcom's BCMR-directed Duct changes.

Section 5.25 – WBC Rentals and Bandwidth, Market B

Reference number	24 (this change was not in the Change Control Notification, as described in Section 4.2.2 of this report)
Key driver for change	More Accurate
Trigger for change	BT Judgement
Description of change	The process of calculating WBA Market B revenue for WBC has been changed due to the previous calculation process not aligning to BT's internal transfer charging. Previously the WBC rentals and bandwidth service revenues in Market B are calculated by subtracting a set rebate from the regulated price. This methodology was implemented historically to match internal sales to external sales of bandwidth and rentals for equivalence reasons in BT Wholesale and Venture's billing system. These revenues do not flow into the management accounts as these are not recharged to downstream BT divisions. The new methodology instead takes into account how the transfer charging takes place within BT. The new process does not use a set rebate, and instead looks at the fully allocated costs apportioned to WBC in Market B before calculating what the internal trading price will be.
Effect of the change	The methodology change reduces Wholesale Residual revenue.
Support for the change	The new internal prices for internal WBC rentals and bandwidth services set at FAC are consistent with how transfer charging works within BT.

Section 5.26 – Matching of Wholesale Residual Costs and Revenue

Reference number	25 (this change was not in the Change Control Notification, as described in Section 4.2.2 of this report)
Key driver for change	More Cost Causal
Trigger for change	BT Judgement
Description of change	Costs relating to revenue generation in Retail Residual were incorrectly being reported in the Wholesale Residual market. We therefore processed this methodology change to match the costs and revenue within Wholesale Residual. In addition, certain internally consumed services within Wholesale Residual did not have matching revenue. We created an internal transfer charge from Wholesale Residual to Retail Residual at fully allocated cost including a return on capital employed.
Effect of the change	This methodology change increases internal revenue and decreases costs in Wholesale Residual. The offsetting impact is to reduce revenue and increase costs in Retail Residual.
Support for the change	This change increases the accuracy of our Wholesale and Retail Residual reported Revenue, Costs and Returns.

Section 5.27 – Other methodology changes

As part of the requirement to produce this reconciliation report, we are required to reverse all methodologies which were implemented in 2015-16. In many instances the impacts do not meet Ofcom's definition of material and we are therefore not presenting the impacts or explanatory text for them separately in this report.

The changes from the Change Control Notification which have been reversed in aggregate are as follows:

- *3.7 COMCOS and AG410*
- *3.9 Lung Provision*
- *3.19 Enhanced Care and Expedite*
- *3.22 Abortive Visits*
- *3.23 WLR Own Use*
- *3.24 Access Fibre CCA Classes of Work*
- *3.25 Analogue Private Circuits*
- *3.26 Calls Factors and Volumes*
- *3.27 BT TSO CTC (Transition Centre) Costs*
- *3.28 WBA Regrades and Migrations*
- *3.32 Residual Circuits and SP Revenue*
- *3.34 IP and ASU*
- *3.39 Cumulo NRC Valuation*
- *3.40 TISBO Component Rationalisation*

Additionally, the following methodology changes implemented after the Change Control Notification have been reversed in aggregate:

- *Ethernet Price and Volume Alignment*
- *BDUK and NGA REFINE Mapping*

We note that there are several non-material changes which we included in our Change Control Notification but which we have not reversed in this report. The changes not reversed and the reasons for their omission are:

- *3.11 TRC Source Data:* The previous source data was not available for 2015-16 so it is not appropriate to reverse this methodology change.
- *3.14 EE Acquisition Costs:* EE acquisition costs were partly attributed to regulated markets in 2014-15 and are now attributed to Retail Residual in 2015-16. Due to the increased magnitude of EE costs in 2015-16 (from £19m to £99m), allocating these acquisition costs back to SMP markets would have a distorting effect on the Reconciliation Report.
- *3.38 Closure of DTTCE Model (Materials Awaiting Installation)*: The changes to DTTCE improve the method to achieve accuracy in our reporting only and reversing would have no impact to our reporting in 2015-16.
- *3.41 F8 to Class of Work Alignment:* The changes to F8 to Class of Work mapping improve the accuracy of our reporting only and do not change our attribution methods.
- *3.42 F8 to Finance Type Alignment:* The changes to F8 to Class of Work mapping improve the accuracy of our reporting only and do not change our attribution methods.
- *3.43 Removal of 21CN Commercial Model:* The changes only affect service level detail within Wholesale Residual, and therefore do not meet the materiality criteria for this report.
- *3.44 Allocation of DRM Treatments for New GL8 Codes:* This change represents the introduction of new general ledger codes for 2015-16 and to reverse it would prevent reconciliation to BT's annual report.
- *3.45 Closure of Non-Core Retail Residual Model:* The change was to create a system generated calculation rather than an offline calculation. As there was no financial impact from this change, it did not meet the materiality criteria for this report.
- *3.46 EE Internal and External Volumes:* This change clarified how we will report EE volumes for 2015-16. As there was no previous methodology for EE volumes, this methodology cannot be reversed.
- *3.47 EE Assets:* This change clarified how we will report EE assets for 2015-16. As there was no previous methodology for EE assets, this methodology cannot be reversed.
- *3.48 REFINE Entity and Market Description Changes:* The changes to REFINE entity and market descriptions improve the clarity of our reporting only and do not change our attribution methods.

- *3.49 REFINE DRM Enhancements:* The enhancements to REFINE's DRM improve the clarity of our reporting only and do not change our attribution methods.
- *3.50 New 21CN CoWs for CCA:* These new CoWs were introduced in 2014-15, and the Change Control Notification of 2016 clarified that we will now account for them on a Current Cost Accounting basis because they will now include assets that are older than one year. As this methodology is to reflect a business change (use of new CoWs) rather than amend previous methodologies, it is not appropriate to reverse this methodology change.
- *3.51 Removal of Cumulo Journal and CUMRBTE Base*: The change simplified processes and had no impact on market figures.
- *3.52 Openreach Own Work Capitalisation:* This reflected a change to Openreach's use of general ledger codes and to reverse it would be to incorrectly present Openreach costs.
- *3.53 LRIC Model and Documentation Changes:* As LRIC data is no longer presented in the RFS it was not relevant to reverse these changes in the Reconciliation Report.
- *3.54 BASENGT:* The change simplified processes and had no impact on market figures.
- *3.55 Model Closures and Model Renaming:* The change simplified processes and had no impact on market figures.
- *3.56 ATM Platform:* As the ATM network is in an advanced stage of closure and is fully depreciated, data is not available in order to apply the previous methodology for 2015-16.

Section 6

Reconciliation report requirements and content – error corrections

Section 6.1 – Reconciliation report requirements and content – error corrections

We have been directed to prepare this Reconciliation Report in accordance with Ofcom's 28 April 2016 BCMR Direction. The Direction provides that BT must prepare a reconciliation report which sets out:

"ii. in relation to Material Errors identified since the publication of the previous Financial Year's Regulatory Financial Statements:

a) for each Material Error, a description of the Material Error, the circumstances of discovery of the Material Error, the reason for the Material Error, and whether such Material Error has been corrected in the restated Prior Year Comparatives;

b) the impact of all Material Errors on all figures presented in the Regulatory Financial Statements for the previous Financial Year, by setting out, on an aggregated basis:

i. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Errors been corrected in the previous Financial Year ("the Corrected Previous Year Figures"); and

ii. the difference as an absolute amount and as a percentage change between the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year and the Corrected Previous Year Figures.

c) the impact of each Material Error at the Markets and Technical Areas Level, by setting out, for each Material Error, the difference as an absolute amount and as a percentage change between:

i. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year; and

ii. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Error been corrected in the previous Financial Year."

"Material Error" is defined by Ofcom as follows:

"'Material Error' means an Error which:

i. results in a correction (be it positive or negative) in any figure in the Regulatory Financial Statements which exceeds the higher of 5% or £1 million. The percentage correction in a figure shall be calculated by taking the value of the affected figure in the Regulatory Financial Reporting before the error is corrected, and subtracting from it, the value of the same figure after the error is corrected, and then dividing this result by the former value; and

ii. fulfils at least one of the following conditions set out in paragraphs (ii)(a) and (ii)(b) below:

a. the error has arisen within the Regulatory Attribution System;

b. the error has been brought to the attention of the Audit and Risk Committee by the Regulatory Auditor."

The purpose of this section of the report is to identify and explain where we have corrected the revised 2015 RFS for errors identified subsequent to publication. This report focuses on the revised 2015 RFS as published compared to the revised 2015 RFS with certain errors corrected.

The Reconciliation Report sets out the data required in paragraph 1.ii of the Direction.

Section 7

Explanation of reported material error corrections

Section 7 – Explanation of reported material error corrections

Section 7.1 – Error correction impacts summary

The following two tables summarise the illustrative difference of individual error corrections on costs and MCE attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market.

The error amendments that had material revenue implications on SMP markets are as follows:

- *Calls Reporting:* This error amendment increased revenue in Call Origination by £12m.
- *IPstream Connect Rental Price Correction:* This error amendment reduced WBA Market A revenue by £12m.

Material error corrections	**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**	**Roundings**	**Total Wholesale Markets**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Operating costs																					
Published 2014-15 RFS	**1,250**	**1,424**	**54**	**82**	**186**	**10**	**12**	**11**	**3**	**390**	**32**	**73**	**98**	**81**	**25**	**202**	**3,933**	**2,631**	**(909)**	**-**	**5,655**
Material error corrections																					
1 WLR Simultaneous Provides	2	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2 IPstream Connect Rental Price Correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
3 CCA Adjustment reporting in RFS Summary Schedules	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
4 Calls Reporting	-	-	-	-	-	-	-	-	-	-	-	-	(4)	2	-	-	(2)	2	-	-	**-**
5 CCA Calculation errors	2	6	1	2	2	-	-	-	-	3	1	2	3	2	-	6	30	48	-	-	**78**
Non-material differences & roundings	-	-	-	-	-	-	-	-	-	-	-	-	(1)	1	-	-	-	-	-	(1)	**(1)**
Corrected 2014-15 RFS	**1,254**	**1,428**	**55**	**84**	**188**	**10**	**12**	**11**	**3**	**393**	**33**	**75**	**96**	**86**	**25**	**208**	**3,961**	**2,681**	**(909)**	**(1)**	**5,732**

Section 7 – Explanation of reported material error corrections

Material error corrections

Mean Capital Employed

	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	Total Wholesale Markets
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Published 2014-15 RFS	**4,940**	**3,917**	**173**	**208**	**451**	**31**	**39**	**49**	**6**	**1,576**	**100**	**200**	**177**	**147**	**32**	**439**	**12,485**	**2,140**	**14,625**
Material error corrections																			
1 WLR Simultaneous Provides	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2 IPstream Connect Rental Price Correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)	-	**(1)**
3 CCA Adjustment reporting in RFS Summary Schedules	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
4 Calls Reporting	-	-	-	-	-	-	-	-	-	-	-	-	(8)	3	-	-	(5)	5	**-**
5 CCA Calculation errors	(27)	(17)	(1)	(2)	(2)	-	-	-	-	(4)	-	(1)	(1)	(1)	-	(3)	(59)	(24)	**(83)**
Non-material differences & roundings	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	2	-	**2**
Corrected 2014-15 RFS	**4,913**	**3,901**	**172**	**206**	**449**	**31**	**39**	**49**	**6**	**1,572**	**100**	**199**	**168**	**149**	**32**	**436**	**12,422**	**2,121**	**14,543**

Section 7.2 – WLR Simultaneous Provides

Reference number	1
Description of error	In 2014-15, the revenues, costs and MCE for WLR Simultaneously Provided Connections and Conversions, and WLR Basic Connections and Conversions, were misstated. This is because volume data for WLR/SMPF Simultaneous Provides/Migrations services was incomplete.
Circumstances of discovery	This error was identified during a reconciliation of RFS data to the Openreach WLR pricing compliance statement.
Restatement impact	Amending this error increases costs in WFAEL and reduces cost in WLA due to total volumes in WFAEL increasing whereas volumes in WLA remain unchanged. Revenue moves to Internal WLR Simultaneously Provided Connections from Internal WLR Connections, and to External WLR Simultaneously Provided Connections from External WLR Connections. Within WFAEL, costs increase for Simultaneously Provided Connections and Conversions, with the largest increases in Internal WLR Simultaneously Provided Connections and Internal WLR Simultaneously Provided Conversions. These are offset by reductions in Internal WLR Connections and Internal WLR Conversions. The largest MCE movements are also increases in Internal WLR Simultaneously Provided Connections and Conversions with offsetting reductions in Internal WLR Connections and Conversions.

Section 7.3 – IPstream Connect Rental Price Correction

Reference number	2
Description of error	Incorrect prices for IPstream rentals had been applied in the revised 2015 RFS for WBA Revenue. This is because there are two separate price lists, one for IPstream and another for IPstream Connect. The RFS states that the prices should be IPstream Connect; however IPstream prices had been applied in error.
Circumstances of discovery	This error was identified during preparation of the 2016 RFS, during a process of reviewing volume and prices to BT Wholesale LoB data.
Restatement impact	Revenue against Market A services IPstream Rental Internal / External were overstated. This is offset by the equivalent Market B IPstream services being understated.

Section 7.4 – CCA Adjustments in RFS Summaries

Reference number	3
Description of error	The RFS schedules held incorrect mapping of CCA adjustments due to an error in mapping REFINE data to the RFS schedules. The split of CCA adjustments between supplementary depreciation and "other CCA" were incorrect.
Circumstances of discovery	The CCA adjustments error was identified whilst reviewing 2015 AFIs with Ofcom.
Restatement impact	The most materially impacted markets are an overstatement in AISBO non-WECLA and an understatement in Fixed (Geographic) Call Termination.

Section 7.5 – Calls Reporting

Reference number	4
Description of error	Numerous errors have been discovered affecting Calls revenue, cost and MCE. The list of error amendments includes: 1. Volume errors, particularly for payphones and operator volumes where duplicate volumes had been input into REFINE; 2. Product mapping amendments that had arisen from data being inaccurately transposed into REFINE; 3. Incorrect intelligent network calculations as no external factors were held in REFINE; 4. Pricing errors for services such as outpayments caused by data not being updated in 2014/15; 5. Incorrect manipulation of input data used to identify the number of calls affected by number portability.
Circumstances of discovery	These errors were identified during the preparation of the 2016 RFS, when attempting to reconcile to the revised 2015 RFS.
Restatement impact	Call Origination costs reduce whilst Call Termination and Wholesale Residual costs increase. For revenue, Call Origination increases whilst Call Termination reduces. In the 2016 RFS we restated for the correction of these errors in the prior year comparatives.

Section 7.6 – CCA Calculation Errors

Reference number	5
Description of error	A number of inter-related models are used to input CCA figures into REFINE. Following changes to CCA valuation methodologies over a number of years these models have become inefficient. We have now rebuilt our CCA Consolidation model and streamlined the CCA process to rectify these issues. In the process, a number of errors in the previous valuation were identified: • TPC and ACPN asset valuations (for back-up power and air conditioning equipment in operational buildings) used inputs that were not updated for 2014-15 • 21CN asset valuation used 2014-15 data updated at December 2014 rather than March 2015 • Fibre valuations used an erroneous calculation regarding the actual time taken to install cables • We are required to value access duct using a Regulatory Accounting Valuation (RAV) methodology but the remaining duct is valued using the full CCA valuation. We made an error in determining the proportion of duct for which the RAV methodology should be applied and therefore over-valued access duct.
Circumstances of discovery	We identified that the current CCA process with its interacting models and inconsistent transfer of data could not be assured of being free of errors. We therefore undertook to redesign the process and rebuild our CCA Consolidation model. In doing so we uncovered these errors.
Restatement impact	The largest impacts of the CCA error amendments are to increase CCA P&L adjustments in WLA and WBA Market A. In the 2016 RFS we restated for the correction of these errors in the prior year comparatives.

Section 8

Glossary

Section 8 – Glossary

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
DTNCNSPO	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