Bringing it all together

Change Control Notification

31 March 2017

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Change Control Notification for the year ended 31 March 2017

Section 1

Introduction to the Change Control Notification

Section 1 – Introduction to the Change Control Notification

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 2016 and those planned to be used for the Current Cost Financial Statements for the year ended 31 March 2017.

This Change Control Notification does not include the impacts of correcting material errors. The correction of material errors will be covered in the reconciliation report to be published by 31 July 2017 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 2016. In accordance with Section 435(1) of the Companies Act 2006, this Change Control Notification is not our statutory accounts. BT Group plc's Annual Report dated 4 May 2016, 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 2015-16 Accounting Methodology Documentation (AMD), dated 28 October 2016, 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 use of Current Cost Accounting (CCA) in this Change Control Notification and the RFS also includes the use of 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 estimated 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 change
- Appendix – Ofcom's Change Control Notification template
- Annex – the financial impact of each change on total CCA Operating Costs, MCE, Total Revenue and Returns are published separately on our website.

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 2015-16 RFS figures

	Fixed Access Markets				Business Connectivity Markets										Narrowband Markets			WBA							
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	CISBO Rest of UK	CISBO London Periphery	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**
2015-16 Published RFS figures	1,038	1,316	47	81	168	7	7	11	3	365	28	84	0	0	101	93	24	198	**3,571**	2,601	(941)	(4,677)	14,785	1	**15,340**
BCMR Market Restructure	1	0	0	0	9	(7)	(7)	(11)	(3)	(365)	(28)	(84)	456	11	0	0	0	0	**(28)**	27	0	0	0	1	**0**
Methodology changes proposed by BT	29	(22)	(9)	(3)	(2)	0	0	0	0	0	0	0	(19)	0	0	0	0	(7)	**(33)**	5	0	137	(134)	(3)	**(28)**
Total effect of methodology changes	30	(22)	(9)	(3)	7	(7)	(7)	(11)	(3)	(365)	(28)	(84)	437	11	0	0	0	(7)	**(61)**	32	0	137	(134)	(2)	**(28)**
2015-16 RFS market figures reflecting all methdology changes	1,068	1,294	38	78	175	0	0	0	0	0	0	0	437	11	101	93	24	191	**3,510**	2,633	(941)	(4,540)	14,651	(1)	**15,312**

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

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 2015-16 RFS figures

	Fixed Access Markets				Business Connectivity Markets										Narrowband Markets			WBA							
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	CISBO Rest of UK	CISBO London Periphery	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**
2015-16 Published RFS figures	4,755	4,357	161	211	385	26	24	44	6	1,596	98	250	0	0	161	146	27	363	**12,610**	1,723	0	0	7,039	(1)	**21,371**
BCMR Market Restructure	0	0	0	0	26	(26)	(24)	(44)	(6)	(1,596)	(98)	(250)	1,838	41	0	0	0	0	**(139)**	138	0	0	0	1	**0**
Methodology changes proposed by BT	0	10	0	9	7	0	0	0	0	0	0	0	48	1	0	0	0	4	**79**	(1)	0	0	2	(1)	**79**
Total effect of methodology changes	0	10	0	9	33	(26)	(24)	(44)	(6)	(1,596)	(98)	(250)	1,886	42	0	0	0	4	**(60)**	137	0	0	2	0	**79**
2015-16 RFS market figures reflecting all methdology changes	4,755	4,367	161	220	418	0	0	0	0	0	0	0	1,886	42	161	146	27	367	**12,550**	1,860	0	0	7,041	(1)	**21,450**

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

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 Total Revenue impact of each of the changes on the figures at the level of the Markets and Technical Areas for published 2015-16 RFS figures

	Fixed Access Markets				Business Connectivity Markets										Narrowband Markets			WBA							
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	CISBO Rest of UK	CISBO London Periphery	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**
2015-16 Published RFS figures	1,665	1,950	105	196	262	17	9	16	2	735	78	121	0	0	185	15	25	453	**5,834**	3,053	(941)	(4,677)	15,775	(2)	**19,042**
BCMR Market Restructure	2	0	0	0	14	(17)	(9)	(16)	(2)	(735)	(78)	(121)	865	32	0	0	0	0	**(65)**	66	0	0	0	(1)	**0**
Methodology changes proposed by BT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(44)	**(44)**	(93)	0	137	0	0	**0**
Total effect of methodology changes	2	0	0	0	14	(17)	(9)	(16)	(2)	(735)	(78)	(121)	865	32	0	0	0	(44)	**(109)**	(27)	0	137	0	(1)	**0**
2015-16 RFS market figures reflecting all methdology changes	1,667	1,950	105	196	276	0	0	0	0	0	0	0	865	32	185	15	25	409	**5,725**	3,026	(941)	(4,540)	15,775	(3)	**19,042**

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

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 Returns impact of each of the changes on the figures at the level of the Markets and Technical Areas for published 2015-16 RFS figures

	Fixed Access Markets				Business Connectivity Markets										Narrowband Markets			WBA							
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	CISBO Rest of UK	CISBO London Periphery	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**
2015-16 Published RFS figures	627	634	58	115	94	10	2	5	(1)	370	50	37	0	0	84	(78)	1	255	**2,263**	452	0	0	990	(3)	**3,702**
BCMR Market Restructure	1	0	0	0	5	(10)	(2)	(5)	1	(370)	(50)	(37)	409	21	0	0	0	0	**(37)**	39	0	0	0	(2)	**0**
Methodology changes proposed by BT	(29)	22	9	3	2	0	0	0	0	0	0	0	19	0	0	0	0	(37)	**(11)**	(98)	0	0	134	3	**28**
Total effect of methodology changes	(28)	22	9	3	7	(10)	(2)	(5)	1	(370)	(50)	(37)	428	21	0	0	0	(37)	**(48)**	(59)	0	0	134	1	**28**
2015-16 RFS market figures reflecting all methdology changes	599	656	67	118	101	0	0	0	0	0	0	0	428	21	84	(78)	1	218	**2,215**	393	0	0	1,124	(2)	**3,730**
2015-16 Published Return on MCE	13.2%	14.5%	36.0%	54.5%	24.4%	36.2%	9.2%	12.3%	(17.6%)	23.2%	50.2%	14.7%	-	-	51.9%	(53.7%)	3.8%	70.2%	**17.9%**	26.2%	-	-	14.1%	-	**17.3%**
2015-16 Return on MCE reflecting all methodology changes	12.6%	15.0%	41.6%	53.6%	24.2%	-	-	-	-	-	-	-	22.7%	50.0%	52.2%	(53.4%)	3.7%	59.4%	**17.6%**	21.2%	-	-	16.0%	-	**17.4%**
Variance	(0.6%)	0.5%	5.6%	(0.9%)	(0.2%)	(36.2%)	(9.2%)	(12.3%)	17.6%	(23.2%)	(50.2%)	(14.7%)	22.7%	50.0%	0.3%	0.3%	(0.1%)	(10.8%)	**(0.3%)**	(5.0%)	-	-	1.9%	-	**0.1%**

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

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

Section 2.5 Summary of methodology changes with no impact to published 2015-16 RFS CCA Operating costs or MCE in any SMP market

This section reports a list of all methodology changes that do not have any impact at the level of the markets and technical areas to any SMP market, based on published 2015-16 RFS operating costs or MCE. These methodology changes are described in Section 3.

Business Re-Organisation Changes taking effect in 2016-17:

- BT Re-Organisation (excluding Openreach)
- Openreach Re-Organisation

Other changes which do not have any impact at the level of the markets and technical areas to any SMP market:

- Network Features
- Wholesale Residual WBA
- Wholesale Residual Calls
- Special Fault Investigation
- LRIC Overlay Removal

Section 3
Explanation of methodology changes

Section 3.01 – BCMR Changes

Type	Change in market definitions
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Ofcom published their final decision on the Business Connectivity Market Review (BCMR) in April 2016. They included a number of detailed reporting requirements including a redefinition of BCMR markets: - AISBO and MISBO markets have been merged together as Contemporary Interface Symmetric Broadband Origination (CISBO) - The geographic split has changed: non-WECLA is now known as Rest of UK; and WECLA has been split into London Periphery and Central London Area - We are required to report Rest of UK and London Periphery in the 2016-17 RFS, but Central London is to be included in Wholesale Residual - We are no longer required to report on the TISBO medium bandwidth market, TISBO high bandwidth market, Regional Trunk market or the Point of Handover market - The TISBO low bandwidth market will continue to be reported and must now also include low bandwidth Regional Trunk and low bandwidth Point of Handover services.
Effect of the change	These changes restructure the Business Connectivity and Wholesale Residual markets, with no impact on other markets.
Support for the change	These changes implement Ofcom's Final BCMR Statement's directions relating to new market structures (Annex 35, published 28 April 2016).
Key changes in accounting documents	The AMD and Wholesale Catalogue will be updated to reflect all BCMR changes, such as showing the new mapping of services to markets in the Wholesale Catalogue.

Section 3.02 – BT Re-Organisation (excluding Openreach)

Type	Change in organisational structure
Key driver for change	More cost causal
Trigger for change	Business Re-Organisation
Description of change	Following the acquisition of EE on 29 January 2016, BT re-organised its line of business (LoB) structure for 2016-17. Elements of EE have been integrated within the pre-existing LoBs including: - Business customers have moved into BT Business & Public Sector - Technology team and network assets have moved into BT Technology, Service and Operations (TSO) - The Mobile Virtual Network Operator business (MVNO) has moved into BT Wholesale & Ventures - HR and other central functions have moved into BT Group Functions - Other elements of EE have been assigned to a new organisational code (OUC) G. EE will continue to be reported within Retail Residual. Other restructure movements not directly related to EE include: - Group Function teams such as cables and supply chain have moved into BT Wholesale & Ventures - Global Services teams such as customer service, government and health have moved into BT Business and Public Sector - BT Fleet has moved into BT Wholesale & Ventures. To reflect this re-organisation in our reporting, process changes have been applied to update our allocation rules by OUC to ensure our methodologies remain consistent with the nature of costs year on year. For example: - The Motor Transport Activity Group, AG101, will continue to attribute fleet costs using the same methodology, but will be assigned costs from Wholesale & Ventures OUCs rather than BT Business - TSO trades by LoB have been adjusted to reflect the new organisational structure, and to include trades to EE, but continue to be apportioned using the same principles.
Effect of the change	The process changes to reflect this re-organisation in our reporting do not impact 2015-16 RFS figures.
Support for the change	The changes to apportionment models and REFINE are needed to ensure the RFS remain consistent with BT's organisational structure and the cost attribution methodologies remain unchanged in substance for 2016-17.
Key changes in accounting documents	The AMD will be updated to reflect changes to methodologies, such as updated OUC-driven bases (Section 10).

Section 3.03 – Openreach Re-Organisation

Type	Change in organisational structure
Key driver for change	More complete
Trigger for change	Business Re-Organisation
Description of change	In 2016-17, Openreach had an organisational restructure to reallocate headcount between OUCs. A number of methodology changes have been applied in order to remove financial impacts from the restructure: - Some BDUK teams (in OUC BK) have moved into the Openreach Network Investment team (OUC BL) but continue to work on BDUK. We will apply 13 new OUC-driven bases to ensure their costs continue to apportion to BDUK plant groups - A new OUC has been created for the Openreach Chief Engineers Office (OUC BO). This new OUC will include costs that have been redirected from BV OUCs, therefore we have replicated the apportionment rules that existed for BV - The Strategy, Commercial, Portfolio and Policy team (OUC BP) have partly moved to a new OUC (BEH1), so the OUC-specific base of OUC BP attributing direct to PG502B will be replicated for OUC BEH1 direct to PG502B - Elements of Openreach Finance have moved OUC (BF to BGD and BGE). Ofcom directed that Openreach Finance should be attributed by Openreach PAC (AG410) so this will be applied to the new OUCs.
Effect of the change	There is no 2015-16 impact from these changes as the re-organisation was introduced during 2016-17.
Support for the change	The changes to apportionment models and REFINE are needed to ensure the RFS remain consistent with BT's organisation structure and the cost attribution methodologies remain unchanged in substance for 2016-17.
Key changes in accounting documents	The AMD will be updated to reflect changes to OUC driven bases (Section 10.2), Other Bases (Section 11.2), Activity Groups (Section 12.2) and Plant Groups (Section 13.2).

Section 3.04 – Openreach Fibre CCA

Type	Change in valuation methodology
Key driver for change	More complete and more objective
Trigger for change	Changes in available evidence
Description of change	The CCA valuation of Access Fibre is to be changed to include additional items that are relevant to its valuation, and to use a five year average efficiency rate as part of its valuation method rather than an in-year efficiency rate. - We propose to include items such as expenditure incurred during the construction of new cables (e.g. traffic management, tree cutting and gully sucking), Optical Terminating Racks and associated cabling within the Access Fibre CCA valuation. - Within the current valuation method, labour-related assets (e.g. installation) are valued using man hour rates multiplied by actual task times. Planned task times have an efficiency rate applied to them in order to calculate these actual task times. We propose to use a five year rolling average of the efficiency rate rather than use the in-year efficiency figure.
Effect of the change	The 2015-16 valuation of Access Fibre assets will increase MCE by £80m cumulatively. Out of the £80m increase, £75m will be within regulated markets. Access Fibre is used by Ethernet markets, TISBO and WLA for NGA. The most material MCE increase of £48m is in the CISBO Rest of UK market. As we are restating both our opening and closing asset valuations, the P&L impact is much smaller than the MCE impact. The largest P&L impact is a c£16m credit to CISBO Rest of UK costs.
Support for the change	The methodology changes will increase the completeness of the Access Fibre CCA valuation by including all relevant items, as well as improving the comparability of the RFS year-on-year by using a five year rolling average efficiency factor.
Key changes in accounting documents	Section 6.2.4 'Access – Fibre Cable' in the AMD will be updated to reflect the changes described above.

Section 3.05 – Fibre Access WBC Point of Handover

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	For WBC, the Point of Handover (PoH) is currently used to define the geographical WBA market that a customer is reported in, either SMP or non-SMP depending on the location of parent exchanges. The proposed methodology change is to report any end user from a Market B child exchange as a Market B volume irrespective of the location of the parent exchange. This is because the customer is already in a competitive market at child exchange level, and therefore the PoH at the parent exchange is not relevant.
Effect of the change	This change will move Fibre Access WBC connection, rental and bandwidth volumes into WBA Market B from WBA Market A. WBA Market A return on MCE will reduce from 70% to 63%.
Support for the change	Ofcom stated in the WBA Market Review Final Statement 2014 (paragraph 6.54) that SMP remedies are disapplied where Fibre Access services in Market A are handed over in Market B. Fibre Access services that are in Market B are unregulated and therefore the point of handover is not relevant. The point of handover is therefore only applicable for Fibre Access services in Market A, i.e. only in this situation do we need to identify whether it is handed over in Market A or B, as this dictates whether the SMP remedies apply or not.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.06 – MSAN Geographic Location Costing

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	MSAN (Multi Service Access Node - part of the 21CN) costs and MCE will be allocated between WBA Market A and Market B (reported within Wholesale Residual) using the location of the MSAN rather than the end user volumes of the services it supports. End user volumes will however continue to be used to split the costs and MCE between internal and external for each market. The source data will be provided by TSO who track the locations of all installed MSANs.
Effect of the change	The change will move £7m CCA operating costs and £10m MCE from Wholesale Residual to WBA Market A.
Support for the change	An internal BT investigation into MSAN costs by market found that there is a much larger concentration of MSANs installed in WBA Market A compared to Market B; this was not reflected by the previous methodology.
Key changes in accounting documents	MSAN Component descriptions will be updated to reflect the change to Component to Service usage factors. The affected components are: CN854 (Combi Card - Broadband) and CN890 (EES and MSAN Access - Broadband).

Section 3.07 – Time Related Charges

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	Time Related Charges (TRC) cost will now be split between regulated and non-regulated TRC using a more detailed attribution methodology, rather than solely attributing the costs based on revenue. The new methodology shall: - Allocate any costs that are directly attributable to either regulated or non-regulated TRC to separate Plant Groups, e.g. CoWs TMPT and CNS are specific to unregulated TRC - Overheads driven by either Pay or Non-Pay would then be apportioned to either the existing regulated TRC Plant Group or the new non-regulated Plant Group in proportion to the directly attributable costs above. Additionally, improvements will be made to the apportionment of total TRC costs: - TRC costs will now include costs from 16 additional CoWs, which will be offset by apportioning less cost to TRCs from general overheads - Less cost will be attributed from CoW SUNB to TRCs, because it shares a base (PDTCOBUS) with a separate CoW, OB. TRC calculations will now reflect this interrelationship.
Effect of the change	The largest market movements are a £4m cost increase in WFAEL, £2m increase in WLA and a £3m reduction in CISBO Rest of UK.
Support for the change	The new methodology will increase consistency and accuracy for TRC.
Key changes in accounting documents	The description for PG981R (Time Related Charges) in the AMD will need to be updated to include the CoW TMPT.

Section 3.08 – Openreach Capitalisations

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	When we capitalise Openreach costs that have already been debited to income statement ledger codes, we book a capitalisation credit onto a different ledger code. Where possible, based on the level of granularity of booking, the apportionment of these two ledger codes (the original cost and the related capitalisation credit) in the RFS should be the same. In the 2015-16 RFS we identified that for NGA self-installation services the capitalisation credit apportionment methodology is not the same as the original debit, so the capitalisation credit apportionment will be changed to align the apportionment methodologies. Additionally, costs we incur in Openreach for work carried out by Carillion Telent are initially booked onto a ledger code that has a different sector to the ledger code used for the related capitalisation credit. We propose to assign the two ledger codes to the same sector. This change has no impact on any of the results of any SMP market.
Effect of the change	The net effect of this change is an increase of £20m cost in WFAEL and a reduction of £24m cost in WLA. There is also an increase of £1m in ISDN2, a net effect of a £3m reduction of costs in SMP markets. This is offset by an increase of £3m in Wholesale Residual.
Support for the change	These changes were identified as part of an internal review of capitalisation credit allocations.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.09 – Downstream Usage of EAD

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	The downstream usage of Openreach's Ethernet Access Direct (EAD) services has been reviewed and two changes are proposed to the allocation of these EOI charges: 1. To begin allocating EAD costs to Fibre-Access WBC bandwidth services, because WBC's usage of Tier 1 links of the EAD backhaul network has grown and is no longer immaterial. Fibre-Access WBC's share of EAD EOI charges will be calculated using a usage factor to reflect how Fibre-Access WBC does not use Tier 2 EAD links 2. The usage factor applied to Fibre-Access services to reflect usage of only Tier 1 EAD backhaul network charges will also be applied to TVC (TV Connect) services, reducing TVC's share of EAD EOI charges.
Effect of the change	WBA Market A costs increase by £0.3m with an offsetting reduction in Wholesale Residual. Introducing an EAD usage factor for TVC services (Wholesale Residual) reduces TVC's share of the EAD costs with an offsetting increase in Fibre-Access WBC (predominantly Wholesale Residual).
Support for the change	This change to EAD apportionment will increase the accuracy of the cost attribution.
Key changes in accounting documents	Section 16 of the AMD (EOI Services) will be updated to explain the changes to EAD apportionment.

Section 3.10 – BT Group Billing

Type	Change in source data
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	Data is available that shows the cost of Group Billing's support provided to each LoB, but the current attribution methodology only uses an element of this data. We propose to use all of this billing data to drive a more cost causal attribution.
Effect of the change	The largest SMP market impact is a reduction in WLA costs by £0.9m.
Support for the change	The changes make better use of available information.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.11 – ISDN Fault Rates

Type	Change in source data
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	Volume and fault rate input data used to calculate ISDN2 and ISDN30 usage factors had not been updated since 2011-12. The fault rate data was based on 10 months' data extrapolated for 12 months. The change in volumes for these services compared to other growth areas means that it is appropriate to update this assumption. The proposal is to update both of these data sources for 2016-16 and annually thereafter, and to use a full 12 months of data input for fault rates.
Effect of the change	Costs reduce in ISDN2 by £9m and in ISDN30 by £0.2m. The reduced usage factors on ISDN2 and ISDN30 services reapportion costs predominantly into WFAEL (£5m) and WLA (£4m) markets, to services that share components with the ISDN markets. The affected components are CL172 (E Side Copper Current), CL174 (D Side Copper Current) and CL176 (Local Exchanges General Frames Maintenance).
Support for the change	Updating this data annually will improve the cost causality and accuracy of component to service apportionments.

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

Section 3.12 – Project Services

Type	Change in market definitions
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Project Services relates to project management services provided by Openreach to CPs who seek coordination of a programme of orders, such as Ethernet provision, that typically include an engineer visit. The SMP general remedies (other than a price control) that Ofcom apply to leased lines markets also apply to Project Services (as per Ofcom's BCMR Final Statement April 2016). We therefore propose to report Project Services within SMP markets rather than in Openreach Residual.
Effect of the change	The majority of the Project Services' revenue and cost will be repointed to the Ethernet markets; predominately the new CISBO Rest of UK market. Project services' revenue and cost will also be allocated to WLA and WFAEL, with a reduced allocation remaining in Openreach Residual.
Support for the change	In their BCMR Final Statement, Ofcom stated that the SMP general remedies (other than a price control) that are applied to leased lines markets apply to Project Services (Section 10.133, BCMR 2016).
Key changes in accounting documents	The AMD will be updated to include the Project Services component (CO254), explaining how it allocates to services. The Wholesale Catalogue will also be updated to reference which published services now include Project Services.

Section 3.13 – Network Features

Type	Change in allocation basis
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	The allocation of PG280C (AXE10 Local Exchange Processor) and PG285C (System X Processor) between Network Features CO293 and Caller Display CO292 will now be based on the volume of rentals sold as opposed to the number of activations of each rental type.
Effect of the change	The effect of the change is to move £6.3m of cost from Caller Display into other Network Features (reported within WLR Other). As costs move within the WFAEL market, there is no market level impact. Out of the total activations in 2015-16, Caller Display represented c80% of Network Feature volumes. However, under the new methodology Caller Display represented c20% of the total rental volume for Network Features.
Support for the change	The intention of the change is to provide a more rational margin across the Caller Display and other Network Features services, which following the separation of Caller Display from all other Network Features has caused a disproportionate cost base to be applied to the now separated Caller Display service. As a result, Caller Display was reported as returning a significantly negative margin whilst other Network Features (reported within WLR Other) were showing large margin returns.
Key changes in accounting documents	AMD descriptions for PG280C and PG285C will be updated to show how costs are apportioned between Network Features and Caller Display, and to clarify their usage of the billing records data source Orbit.

Section 3.14 – Wholesale Residual WBA

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	This is an extension of the 'Wholesale Broadband Connect revenues' methodology change described in Section 2.1.5 of the 2015-16 RFS. This changed the methodology for calculating internal revenues for a subset of WBA Market B services by setting the internal price, reported in the RFS, equal to fully allocated costs (FAC). It is now proposed to extend this FAC approach for our internal RFS revenues to all services in WBA Market B.
Effect of the change	Overall, total Wholesale Residual revenue decreases by £34m (1.1%) in 2015-16. The return on Wholesale Residual also decreases by £34m (7.4%). There is a corresponding decrease in Retail Residual costs of £34m (0.2%), and an increase in Retail Residual return of £34m (3.4%).
Support for the change	Using FAC for the RFS internal revenue calculation will increase accuracy of Wholesale Residual revenues.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.15 – Wholesale Residual Calls

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	This is an extension of the 'Wholesale Broadband Connect revenues' methodology change described in Section 2.1.5 of the 2015-16 RFS. Calls revenue within Wholesale Residual will now be calculated by setting the internal price, as reported in the RFS, equal to fully allocated cost (FAC).
Effect of the change	Overall, total Wholesale Residual revenue decreases by £74m (2.4%) in 2015-16. The return on Wholesale Residual also decreases by £74m (16.4%). There is a corresponding decrease in Retail Residual costs of £74m (0.5%), and an increase in Retail Residual return of £74m (7.5%).
Support for the change	Using FAC for the RFS internal revenue calculation will increase accuracy of Wholesale Residual revenues.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.16 – Special Fault Investigation (SFI)

Type	Change in source data
Key driver for change	More consistent with regulatory decisions
Trigger for change	BT judgement
Description of change	SFI costs by module, based upon the task time of each module, is presented in the RFS within Appendix 4.3. However, the task time per module is not needed for the SFI revenue and cost allocation methodologies in the RFS, and is not data that is easily obtained from Openreach. Openreach's engineers book total SFI task times, not by module. Instead, to prepare Appendix 4.3, management information is collected from Openreach in order to estimate the SFI task times by module. We propose to remove the complex estimations of modular task times, and replace them with fixed task times per module as used in Ofcom's latest Fixed Access Market Review (FAMR) Final Statement.
Effect of the change	There is no impact on market or service costs in the RFS, as the change only affects the reporting of SFI costs per module in Appendix 4.3 of the RFS. In Appendix 4.3, the base cost per module increases from £25.8m to £26.7m. This is predominantly offset by a reduction in the costs per module of Network (£0.3m), Frame (£0.2m) and Co-op (£0.3m).
Support for the change	This change increases the consistency year on year of SFI costs per module reported in Appendix 4.3, and removes unnecessary complexity underpinning the SFI cost per module reporting.
Key changes in accounting documents	There are no changes to accounting documentation.

Section 3.17 – Abortive Visit Charges

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	Currently, Abortive Visit Charge (AVC) services' costs and MCE are allocated from installation classes of work. This methodology change proposes that costs and MCE will also be allocated from repair classes of works.
Effect of the change	Although the AVC services will now receive an allocation of cost from repair class of works, the overall cost for AVCs will not change. This is because the total AVC cost is calculated based on volumes multiplied by an hourly rate and an average task time. Therefore, this will mean AVCs will receive a smaller allocation from installation classes of works. The change will however impact the allocation of costs and MCE to WLA and WFAEL at a market level, moving c£0.2m cost from WLA to WFAEL.
Support for the change	These changes were identified as part of an internal review of cost allocations.
Key changes in accounting documents	The AMD descriptions will be updated for the following bases: 1) PDTUDL 2) PDTCORES The descriptions will need to be updated to explain that the costs included in these bases will now also be allocated to PG150B (Abortive Visit Charges).

Section 3.18 – Circuit Provision Cost Simplification

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	We propose to remove three Circuit Provision (CP) Plant Groups in order to simplify processes. The apportionment of these CP Plant Groups to Component is not updated annually, and is of low materiality (in total they apportion c£1m). The costs, predominantly for CP Digital Public Network, will instead be apportioned using existing PDH bearer link Plant Groups.
Effect of the change	Removal of the three Plant Groups moves £0.1m of cost into both the Interconnect and Low Bandwidth TISBO markets. The offsetting reduction is in Wholesale Residual.
Support for the change	This methodology change simplifies processes and removes immaterial entries from the AMD.
Key changes in accounting documents	Plant Groups PG721A, PG722A and PG723A will be removed from the AMD (Section 13, Plant Group Descriptions).

Section 3.19 – LRIC Overlay Removal

Type	Change in allocation basis
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	Long run incremental costs (LRIC) are calculated using data from REFINE, typically after the RFS has been completed. A number of overlays are made to the REFINE output data to ensure it is a suitable input to the LRIC calculations. We intend to remove a number of these overlays by implementing REFINE changes such as: - All CRF and CRD CoW core transmission costs will consistently be in the same sector (DA, as explained in the AMD) - 21CN CoWs WDM, Metro-Core and MSAN each have their own cost volume relationship markers (CVRs). We will ensure all costs and assets for these CoWs use the specific LRIC markers needed to ensure their full values assign to their own CVR - 21CN CoW ETHER costs and assets will all use the same 21CN CVR - Unclassified transmission equipment, which was previously overlaid to predominantly follow the SDH LRIC CVR, will be changed in REFINE to automatically assign to SDH - Service Centre capitalisation credit will use a specific LRIC marker for Other Support Activities, to match the credit with its costs.
Effect of the change	These changes do not impact costs, revenues or MCE by market or service in the RFS.
Support for the change	These changes simplify the process of calculating LRIC, and remove manual intervention.
Key changes in accounting documents	All LRIC overlays will be explained in the LRIC Relationships and Parameters (R&P) 2016-17 document. These changes will now be removed from the list of overlays. Furthermore, changes will be made to LRIC Model Relationships and Parameters 2016-17 Annex 5, which lists F8 codes by LRIC Cost Category.

Appendix

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*