Superfast broadband price control appeals: BT and TalkTalk

Appendices and glossary

Appendix A: BT Appeal, reference to the CMA

<u>IN THE COMPETITION APPEAL TRIBUNAL</u>

Case Number: 1238/3/3/15

B E T W E E N:

BRITISH TELECOMMUNICATIONS PLC

<u>Appellant</u>

-v-

OFFICE OF COMMUNICATIONS

<u>Respondent</u>

-and-

TALKTALK TELECOM GROUP PLC
SKY UK LIMITED

<u>Interveners</u>

REFERENCE OF SPECIFIED PRICE CONTROL MATTERS TO THE COMPETITION AND MARKETS AUTHORITY

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1. Having regard to:

   (a) the decision ("the Decision") contained in a Statement entitled "*Fixed Access Market Reviews: Approach to the VULA margin*" dated 19 March 2015, issued by the Office of Communications ("Ofcom") ("the Statement");

   (b) the price control imposed on British Telecommunications plc ("BT") by SMP services condition 14 in Schedule 1 to Annex 2 of the Statement and the related guidance set out at Annex 3 of the Statement (the "Price Control");

   (c) the Notice of Appeal ("Am NoA") dated 19 May 2015 and as amended on 2 September 2015 filed by BT against the Decision;

   (d) the order of the Tribunal dated 17 July 2015, as amended on 7 August 2015, providing the Tribunal's case management directions in respect of BT's appeal;

   (e) the Defence and supporting evidence filed by Ofcom on 5 October 2015;

   (f) the Statements of Intervention and supporting evidence filed by each of the Interveners on 23 October 2015 and;

   (g) the Reply and supporting evidence filed by BT on 11 November 2015;

2. The Tribunal, pursuant to Rule 116(2) of the Competition Appeal Tribunal Rules 2015 (SI 2015 No. 1648) and section 193 of the Communications Act 2003 (the "2003 Act"), hereby refers to the Competition and Markets Authority (the "CMA") the following questions for determination of the specified price control matters arising in this appeal

3. By this reference, the Tribunal orders the CMA to determine the following questions:

Questions 1-5

Whether in setting the Price Control Ofcom erred in law, in fact and/or in the exercise of its discretion in one or more of the following respects alleged in the Am NoA taken individually or, if appropriate, in combination:

Question 1

Did Ofcom fail to take "utmost account" of the views of the European Commission, for the reasons set out in paragraphs 106 to 134 of the Am NoA?

Question 2

Did Ofcom fail to comply with the general principles of EU law, and in particular with the principle of legal certainty, for the reasons set out in paragraphs 135-159 of the Am NoA?

Question 3

Did Ofcom err in one or more of the following respects:

(a) in applying a LRIC+ test that is alleged by BT to be unduly rigid in requiring that BT's new retail superfast broadband subscribers make a defined contribution to fixed and common costs (alleged by BT to constitute a form of Fully Allocated Cost standard), for the reasons set out in paragraphs 161(a) and 164-169 of the Am NoA?

(b) by applying the requirement set out at (a) above on a month-by-month basis, for the reasons set out in paragraphs 161(b) and 170-172 of the Am NoA?

(c) in applying a static approach to the design of the Price Control, taking no account of reasonably anticipated future changes in margin across the average customer life ("ACL") of the relevant customers, for the reasons set out in paragraphs 161(c) and 173-174 of the Am NoA?

(d) in (i) adjusting the ACL used in the Price Control to a period shorter than that for BT's own retail broadband customers; and/or (ii) using the shorter 60-month ACL throughout the control period, for the reasons set out in paragraphs 161(d) and 175-189 of the Am NoA?

(e) by applying the Price Control on a pass/fail basis in any given month with no tolerance for the extent to which BT is found to have failed or the reasons for or consequences of any such failure, for the reasons set out in paragraphs 161(e) and 190-195 of the Am NoA?

(f) by including the net costs of BT Sport in the Price Control on a basis that BT alleges fails to take account of: (i) the size of the costs and revenues under consideration; (ii) evidence available to Ofcom as to the long-term trend and seasonality of the net costs of BT Sport; and/or (iii) the nature of competition in content markets and how this affects competition in Standard Broadband and/or Superfast Broadband, in particular between BT and Sky, for the reasons set out in paragraphs 162(f) and 196-203 of the Am NoA?

(g) in not making allowance for the long term costs of entry that BT alleges it faces in seeking to compete effectively in the provision of sports content, for the reasons set out in paragraphs 162(g) and 204-209 of the Am NoA?

(h) in adopting an approach to BT's costs of entry in the provision of sports content that BT alleges is inconsistent with the approach adopted by Ofcom in its "Pay TV statement" dated 31 March 2010 ("the Pay TV Statement"), for the reasons set out in paragraphs 162(h) and 210-212 of the Am NoA?

(i) by rejecting a value-based approach to the application of the Price Control to the supply of sports content by BT, for the reasons set out in paragraphs 162(i) and 213-217 of the Am NoA?

(j) in its treatment of: (i) BT Sport channel launch costs; and (ii) BT Sport marketing costs as an ongoing cost, for the reasons set out in paragraphs 162(j) and 218 of the Am NoA.

Question 4

Did Ofcom err in one or more of the following respects:

(a) in not incorporating a prospective analysis as part of the Price Control imposed, for the reasons set out in paragraphs 241(a) and 242-246 of the Am NoA?

(b) by applying an adjusted Equally Efficient Operator standard on the facts of the present case, for the reasons set out in paragraphs 241(b) and 247-250 of the Am NoA?

(c) in applying the Long-Run Incremental Cost Plus standard to bundled services including BT Sport, for the reasons set out in paragraphs 241(c) and 251-252 of the Am NoA?

(d) in excluding any requirement for evidence either of exclusionary intention or adverse effects on competition in the application of the Price Control, for the reasons set out in paragraphs 241(d) and 253-256 of the Am NoA?

(e) in imposing a regulatory condition on BT that BT alleges is not objectively justified by, and is disproportionate to, Ofcom's stated regulatory aim in imposing that condition, for the reasons set out in paragraphs 257(e) and 258-260 of the Am NoA?

(f) in imposing a regulatory condition on BT that BT alleges fails to: promote efficiency; promote sustainable competition; and/or confer the greatest possible benefits on consumers, for the reasons set out in paragraphs 257(f) and 261-263 of the Am NoA?

(g) in its treatment of BT's investment in the matters to which the Price Control relates (and in particular its investment in its fibre Next Generation Access network and in acquiring sports content), for the reasons set out in paragraphs 257(g) and 264-266 of the Am NoA?

(h) in imposing a regulatory condition on BT that BT alleges is such as to discriminate unduly against BT, by comparison with the approach taken to Ofcom's regulation of Sky in respect of pay-TV, for the reasons set out in paragraphs 257(h) and 267-268 of the Am NoA?

(i) in imposing a regulatory condition on BT that BT alleges fails to provide the requisite transparency in relation to what it is intended to achieve, for the reasons set out in paragraphs 257(i) and 269 of the Am NoA.

Question 5

Whether the terms of the Price Control are in breach of the principle of proportionality that is applicable to such conditions as a general principle of EU law and pursuant to Article 8(4) of the Access Directive, having regard to one or more of the following alternatives:

(a) a discounted cash flow and effects-based analysis, allowing for the recovery of fixed investment costs (including the fixed costs of sports rights) over a longer time period, for the reasons set out in paragraphs 273(a) and 275-277 of the Am NoA?

(b) the 'value approach' put forward by Compass Lexecon, for the reasons set out in paragraphs 273(b) and 280-281 of the Am NoA?

(c) the approach adopted by Ofcom itself in the Pay TV Statement, for the reasons set out in paragraphs 273(c) and 278-279 of the Am NoA?

(d) an approach which corrected for any of the errors identified by the CMA in response to Questions 3 and 4 above.

Question 6

Having regard to the fulfilment by the Tribunal of its duties under section 195 of the 2003 Act, and in the event that the CMA determines that Ofcom did err in one or more of the respects set out above, the CMA is to include in its determination insofar as is reasonably practicable:

(a) clear and precise guidance as to how such errors found should be corrected; and

(b) a determination as to any consequential adjustments to the Price Control.

4. The CMA is directed to determine the issues contained in this reference on or before 5 July 2016

5. The CMA shall notify the parties to these appeals of its determination at the same time as it notifies the Tribunal pursuant to section 193(4) of the 2003 Act

6. There be liberty to apply.

Andrew Lenon QC
Chairman

Made: 5 January 2016
Drawn: 5 January 2016

Appendix B: TalkTalk Appeal, reference to the CMA

IN THE COMPETITION APPEAL TRIBUNAL

Case Number: 1237/3/3/15

B E T W E E N:

TALKTALK TELECOM GROUP PLC

Appellant

-v-

OFFICE OF COMMUNICATIONS

Respondent

-and-

BRITISH TELECOMMUNICATIONS PLC

Intervener

REFERENCE OF SPECIFIED PRICE CONTROL MATTERS TO THE COMPETITION AND MARKETS AUTHORITY

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1. Having regard to:

   (a) the decision contained in a Statement entitled "*Fixed Access Market Reviews: Approach to VULA margin*" dated 19 March 2015, issued by the Office of Communications ("Ofcom") (the "Decision");

   (b) the price control imposed on British Telecommunications plc ("BT") by SMP services condition 14 in Schedule 1 of Annex 2 to the Decision and the related guidance set out at Annex 3 of the Decision (the "Price Control");

   (c) the Notice of Appeal ("NoA") dated 15 May 2015, as amended on 2nd September 2015, lodged by TalkTalk Telecom Group plc ("TalkTalk") against the Decision;

   (d) the order of the Tribunal dated 17 July 2015 (as amended), providing the Tribunal's case management directions in the appeal;

   (e) the Defence and supporting evidence filed by Ofcom on 5 October 2015;

(f) the Statement of Intervention and supporting evidence filed by the Intervener on 23 October 2015;

(g) the Reply of TalkTalk of 11 November 2015

2. The Tribunal, pursuant to Rule 116(2) of the Competition Appeal Tribunal Rules 2015 (SI 2015 No. 1648) and section 193 of the Communications Act 2003 (the "2003 Act"), hereby refers to the Competition and Markets Authority (the "CMA") the following questions for determination of the specified price control matters arising in this appeal

3. By this reference, the Tribunal orders the CMA to determine the following questions:

Question 1

Whether Ofcom erred in deciding not to supplement its portfolio level test with a product level test, for the reasons set out in paragraphs 47 to 92 of the NoA.

Question 2

Whether, when calculating the revenues of an 'adjusted equally efficient operator', Ofcom erred in deciding not to use BT's call revenues for newly acquired customers, for the reasons set out in paragraphs 93 to 122 of the NoA.

Question 3

Having regard to the fulfilment by the Tribunal of its duties under section 195 of the 2003 Act and in the event that the CMA determines that Ofcom did err in relation to any of the above questions, the CMA is to include in its determination insofar as reasonably practicable:

(a) clear and precise guidance as to how any such error found should be corrected; and

(b) a determination as to any consequential adjustments to the Price Control.

4. The CMA is directed to determine the issues contained in this reference on or before 5 July 2016

5. The CMA shall notify the parties to these appeals of its determination at the same time as it notifies the Tribunal pursuant to section 193(4) of the 2003 Act

6. There be liberty to apply.

Andrew Lenon QC
Chairman

Made: 5 January 2016
Drawn: 5 January 2016

Appendix C: Draft VULA Margin Condition

Condition 14 – Virtual Unbundled Local Access margin control

14.1 This condition applies to Virtual Unbundled Local Access provided by the Retail Divisions. Unless OFCOM otherwise consents in writing, the Dominant Provider must set the charge for Virtual Unbundled Local Access provided by the Retail Divisions in accordance with conditions 1 and 2 so that a Minimum Margin is maintained.

14.2 For the purposes of this condition 14, a Minimum Margin is maintained if, during any Compliance Period:

$$P - (W + DC) \geq UC - UR$$

Where:

P is the sum of the Projected Monthly Revenue for each month in the Compliance Period. For this purpose, "**Projected Monthly Revenue**" means, in respect of a month in a Compliance Period, the total revenue generated by the Retail Divisions where such revenue is associated with the supply of VULA-Based Broadband Packages to New Subscribers relevant to that month~~the Compliance Period~~ (excluding ~~revenue referred to in~~ Upfront Revenue for that month) (the "**Base Revenue**"), as Projected Forward;

W is the sum of the Projected Monthly Charges for each month in the Compliance Period. For this purpose, "**Projected Monthly Charges**" means, in respect of a month in a Compliance Period, the total wholesale charges levied by Openreach for both Virtual Unbundled Local Access and Wholesale Analogue Line Rental for the purpose of the supply of VULA-Based Broadband Packages to New Subscribers by the Retail Divisions relevant to that month ~~the Compliance Period~~ (the "**Base Charges**"), as Projected Forward;

DC is the sum of the Projected Monthly Costs for each month in the Compliance Period. For this purpose, "**Projected Monthly Costs**" means, in respect of a month in a Compliance Period, the total long-run incremental costs (including the Relevant Bandwidth Costs) incurred by the Dominant Provider where such costs are associated with the supply of VULA-Based Broadband Packages to New Subscribers by the Retail Divisions relevant to that month~~e Compliance Period~~ (excluding Base Charges ~~those costs~~ and Upfront Costs for that month~~charges referred to in W and UC~~) plus an appropriate mark up for the recovery of common costs including an appropriate return on capital employed (the "**Base Costs**"), as Projected Forward;

UR is the sum of the Upfront Revenue for each month in the Compliance Period. For this purpose, "**Upfront Revenue**" means, in respect of a month in a Compliance Period, the total revenue generated by the Retail Divisions where such revenue is associated with the acquisition of New Subscribers to VULA-Based Broadband Packages relevant to that monthe ~~Compliance Period~~; and

UC is the sum of the Upfront Costs for each month in the Compliance Period. For this purpose, "**Upfront Costs**" means, in respect of a month in a Compliance Period, the total long-run incremental costs incurred by the Retail Divisions where such costs are associated with the acquisition of New Subscribers to VULA-Based Broadband Packages relevant to that monthe ~~Compliance Period~~ plus an appropriate mark up for the recovery of common costs including an appropriate return on capital employed.

For the purposes of this condition 14.2, any costs, charges or revenue referred to as being Projected Forward shall be calculated by:

(a) dividing the Base Revenue, Base Charges or Base Costs (as applicable) by the number of calendar days in the relevant ~~Compliance Period~~month (resulting in the "**Daily Average**");

(b) multiplying the Daily Average by 30.4375 (resulting in the "**Monthly Average**"); and

(c) then applying the following formula:

$$\sum_{t=0}^{N} \frac{M_t}{(1+i)^t}$$

Where:

t is a number from 0 to N for each of the N months;

i is the appropriate cost of capital (expressed as a monthly figure), as determined by OFCOM from time to time;

N is 60; and

$\boldsymbol{M_t}$ means the Monthly Average.

14.3 The Dominant Provider must record, maintain and supply to OFCOM in an electronic format (including in any such presentational form or arrangement (including as to the level of disaggregation) as OFCOM may direct from time to time), no later than one month after the end of each ~~Relevant~~ Compliance Period, the data necessary for OFCOM to monitor compliance of the Dominant Provider with condition 14.1 above in respect of Virtual Unbundled Local Access. This data must include:

(a) Base Revenue;

(b) Base Charges;

(c) Base Costs;

(d) Upfront Revenue;

(e) Upfront Costs; and

(f) such other data as OFCOM may direct from time to time,

in respect of each month ~~Compliance Period~~ in the preceding ~~Relevant~~ Compliance Period and/or such other period as OFCOM may direct from time to time.

14.4 In this condition 14:

(a) "**Base Charges**" has the meaning given to it in condition 14.2;

(b) "**Base Costs**" has the meaning given to it in condition 14.2;

(c) "**Base Revenue**" has the meaning given to it in condition 14.2;

(d) "**Compliance Period**" means the following periods of six months beginning either (as applicable) on:

(i) 1 April and ending on ~~Insert Date~~30 September; ~~or~~and

~~(i)~~(ii) ~~Insert Date~~1 October and ending on ~~Insert Date~~31 March;

~~(d)~~(e) "**Daily Average**" has the meaning given to it in condition 14.2(a);

~~(e)~~(f) "**enterprise**" shall have the meaning given to it in the Enterprise Act 2002;

~~(f)~~(g) "**Enterprise Act 2002**" means the Enterprise Act 2002 (c.40), as amended;

~~(g)~~(h) "**Minimum Margin**" has the meaning given to it in condition 14.2;

~~(h)~~(i) "**Monthly Average**" has the meaning given to it in condition 14.2(b);

~~(i)~~(j) "**New Subscribers**" means, in respect of a month, those end-users that do not subscribe to a VULA-Based Broadband Package as at the commencement of that month~~e relevant Compliance Period~~;

~~(j)~~(k) “**Openreach**” means the access services division of the Dominant Provider established under section 5 of the undertakings given by the Dominant Provider to OFCOM in accordance with section 154 of the Enterprise Act 2002, accepted by OFCOM on 22 September 2005;

~~(k)~~(l) “**Plusnet**” means Plusnet Plc, whose registered company number is 03279013;

(m) “**Projected Forward**” has the meaning given to it in condition 14.2;

(n) “**Projected Monthly Charges**” has the meaning given to it in condition 14.2;

(o) “**Projected Monthly Costs**” has the meaning given to it in condition 14.2;

(p) “**Projected Monthly Revenue**” has the meaning given to it in condition 14.2;

~~(l)~~(q) "**Regulatory Financial Statement**" shall have the meaning given to it in condition 13A;

~~(m)~~(r) “**Relevant Bandwidth Costs**” means, in respect of a month:

(i) where the latest available Regulatory Financial Statement relevant to the month ~~Compliance Period~~ is the 2013/14 RFS, whichever is the higher of either the Dominant Provider's Unit Bandwidth Costs relevant to the month ~~Compliance Period~~ or £9.20 per Mbit/s;

(ii) where the latest available Regulatory Financial Statement relevant to the month ~~Compliance Period~~ is the 2014/15 RFS, whichever is the higher of either the Dominant Provider's Unit Bandwidth Costs relevant to the month ~~Compliance Period~~ or £7.17 per Mbit/s; or

(iii) where the latest available Regulatory Financial Statement relevant to the month ~~Compliance Period~~ is the 2015/16 RFS, whichever is the higher of either the Dominant Provider's Unit Bandwidth Costs relevant to the month ~~Compliance Period~~ or £5.59 per Mbit/s;

~~(n) “**Relevant Period**” means:~~

~~(i) the period between 1 April 20165 and 30 April 2015 [*Insert Date*] (inclusive);~~

~~(ii) the period between [*Insert Date*] 1 April 2015 and [*Insert Date*]30 September 2015 (inclusive); and~~

~~(iii) after the period referred to in (ii) above, the following periods of six months beginning either (as applicable) on:~~

a. ~~[*Insert Date*]1 October and ending on [*Insert Date*] 31 March; or~~

b. ~~[*Insert Date*]1 April and ending on [*Insert Date*]30 September.~~

~~(o)~~(s) "**Retail Divisions**" means the enterprise of the Dominant Provider known as 'BT Consumer' (and which includes Plusnet) as at the date of the entry into force of this condition or such other enterprise or enterprises that may replace or succeed BT Consumer from time to time;

(t) "**Unit Bandwidth Costs**" means, in respect of a month, the average cost of providing 1Mbit/s of capacity between the Local Serving Exchange and the internet relevant to that monthe ~~Compliance Period~~;

(u) "**Upfront Costs**" has the meaning given to it in condition 14.2;

(v) "**Upfront Revenue**" has the meaning given to it in condition 14.2;

~~(p)~~(w) "**VULA-Based Broadband Package**" means any product, service or bundle of products or services (including, but not limited to, telephony (including fixed and mobile telephony) and television services (including content)) offered by the Dominant Provider during the relevant month ~~Compliance Period~~ through its Retail Divisions to New Subscribers which include the provision of a broadband connection, where the Dominant Provider uses Virtual Unbundled Local Access in order to provide that broadband connection;

~~(q)~~(x) "**VULA-Based Broadband Packages**" means all products, services or bundles of products or services (including, but not limited to, telephony (including fixed and mobile telephony) and television services (including content)) offered by the Dominant Provider during the relevant month ~~Compliance Period~~ through its Retail Divisions to New Subscribers which include the provision of a broadband connection, where the Dominant Provider uses Virtual Unbundled Local Access in order to provide that broadband connection;

~~(r)~~(y) "**2013/14 Financial Year**" means the period 1 April 2013 to 31 March 2014 (inclusive);

~~(s)~~(z) "**2013/14 RFS**" means the Regulatory Financial Statement prepared by the Dominant Provider in relation to the 2013/14 Financial Year;

~~(t)~~(aa) "**2014/15 Financial Year**" means the period 1 April 2014 to 31 March 2015 (inclusive);

~~(u)~~(bb) "**2014/15 RFS**" means the Regulatory Financial Statement prepared by the Dominant Provider in relation to the 2014/15 Financial Year;

~~(v)~~(cc) "**2015/16 Financial Year**" means the period 1 April 2015 to 31 March 2016 (inclusive);

and

~~(w)~~(dd) "**2015/16 RFS**" means the Regulatory Financial Statement prepared by the Dominant Provider in relation to the 2015/16 Financial Year.

Appendix D: Revised VULA Margin Guidance

Guidance on assessment of the VULA margin

Introduction

A1.1 This Annex sets out guidance on how we intend to undertake an assessment of whether BT is complying with SMP condition 14. This guidance reflects the approach we would take based on the information available to us at this time. However, we recognise that it may be appropriate to depart from this guidance if there is a material change in circumstances.

A1.2 This guidance should be read alongside SMP condition 14.

Structure of this guidance

A1.3 SMP condition 14 distinguishes between the following five categories of monthly costs/revenues:

- ~~ongoing revenues~~Base Revenues;
- ~~ongoing wholesale~~Base Charges~~ costs~~;
- ~~ongoing retail~~Base C~~c~~osts;
- U~~u~~pfront C~~c~~osts; and
- U~~u~~pfront R~~r~~evenues.

A1.4 Each of these cost and revenue categories are discussed in turn in this guidance at paragraphs A3.15~~4~~-A3.2~~2~~3 (Base Revenues~~ongoing revenue~~), A3.24~~3~~-A3.25~~4~~ (Base Charges~~ongoing wholesale costs~~), A3.26~~5~~-A3.6~~1~~2 (Base~~ongoing retail~~ C~~c~~osts), A3.63~~2~~-A3.72~~1~~ (U~~u~~pfront C~~c~~osts) and A3.73~~2~~-A3.74~~3~~ (~~u~~Upfront R~~r~~evenues).

A1.5 We first discuss at paragraphs A3.7~~6~~-A3.1~~3~~4 our general approach to assessing compliance with SMP condition 14.

A1.6 This guidance uses the following terms:.

- "**compliance period**": a period consisting of six consecutive calendar months during which BT must maintain the minimum VULA margin specified in the SMP condition. Compliance is evaluated over this six month period as a whole.
- "**monthly period**": in respect of a compliance period, each individual calendar month within that compliance period. In particular, while BT's compliance with SMP condition 14 will be assessed by looking at its margin across a six-month period, Ofcom will collect cost and revenue data from BT in relation to each monthly period. Further, each of the five categories of monthly revenues/costs

referred to at A3.3 above (and on which this document provides guidance) are intended to capture BT's costs and revenues across monthly periods.

- "**data period**": a period from which we take cost and revenue data to assess the VULA margin. Note that some of the data used to assess compliance may come from the months outside the compliance period, e.g. most recent full financial year (this is explained in further detail below).

Overview of approach

~~A1.5~~A1.7 Except where noted otherwise, we would assume that the VULA margin was constant over the Average Customer Lifetime ('ACL').

~~A1.6~~A1.8 When conducting an assessment, we would consider whether a material change in circumstances occurred in the months preceding or during the compliance period. If there was evidence that this was the case then we may depart from the guidance set out below.

~~A1.7~~A1.9 When assessing BT's compliance with SMP condition 14 during a particular time period, we would seek to use historical data that is representative of the circumstances over the ACL.

~~A1.8~~A1.10 In order to assess BT's fibre portfolio, we would calculate weighted average revenues and costs across individual bundles within BT's fibre portfolio. The weights used in the calculation would be the volumes of subscribers acquired on each product during the ~~compliance~~ monthly period.

~~A1.9~~A1.11 When carrying out an assessment of the VULA margin, we would simplify our modelling in order to focus on the most material factors. In particular we would:

- not specifically take fibre to the premises (FTTP) bundles into account when carrying out modelling; and

- analyse Plusnet subscribers by using data on the costs and revenues for superfast broadband products supplied by the rest of BT Consumer, except where data on Plusnet's specific costs and revenues can be easily sourced using publicly available information or Plusnet's management accounts.

~~A1.10~~A1.12 When assessing the VULA margin we would consider the prices that BT charges to new superfast broadband customers.

~~A1.11~~A1.13 The VULA margin assessment would include the costs and revenues of any new services BT begins to bundle with superfast broadband during the market review period (e.g. mobile services).

~~A1.12~~A1.14 We would use the pre-tax nominal weighted average cost of capital ('WACC') relevant to the BT Consumer business prevailing in the monthly ~~compliance~~ period in order to project forward BT's Base Costs, Base Charges and Base ~~ongoing costs and~~ R~~r~~evenues.

~~Ongoing monthly revenues~~Base Revenues

~~A1.13~~A1.15 Our guidance on how we would calculate Base Revenues in respect of a monthly period~~the parameter "P" in SMP condition 14.2~~ is set out in the following subsection.

Monthly subscription revenues

~~A1.14~~A1.16 Headline monthly subscription prices for the product tiers in the superfast broadband portfolio would be the prices applicable during the monthly ~~compliance~~ period. We would make an adjustment to the headline monthly subscription prices to take into account loyalty / retention discounts which BT offers to certain customers. The level of the adjustments would be estimated by calculating the average percentage discount given on each product tier over the monthly ~~compliance~~ period.

Line rental revenues

~~A1.15~~A1.17 Line rental prices would be the line rental prices applicable during the monthly ~~compliance~~ period. To take into account the different prices of standard line rental and annual line rental saver, the average line rental price would be estimated on the basis of the volumes of BT superfast broadband customers using each option over the monthly ~~compliance~~ period.

Call revenues

~~A1.16~~A1.18 The call revenues earned from a superfast broadband customer would be sourced from BT's database[1] and would be based on the average revenues earned from superfast broadband customers over the previous six months. This would include revenues earned from package fees and out of package ('OOP') calls.

Out of package data usage revenues

~~A1.17~~A1.19 The OOP data usage revenues earned from a superfast broadband customer would be sourced from BT's system[2] and would use the average OOP data usage earned from superfast broadband customers over the previous six months.

Advertising revenues

~~A1.18~~A1.20 We would estimate the amount of advertising revenue earned from a superfast broadband customer by taking the amount recorded in the most recent annual Broadband management accounts and dividing by the average broadband customer base over the period the accounts cover and converting to a monthly figure.

TV revenues

~~A1.19~~A1.21 The headline monthly subscription prices for BT TV would be the prices applicable during the monthly ~~compliance~~ period.

~~A1.20~~A1.22 We would estimate on-demand revenues by taking the total on-demand revenues reported in the most recent BT TV management accounts and dividing by the average number of TV subscriptions in the period covered by the accounts and converting to a monthly figure.

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[1] BT currently holds a database, known as [[✂], which collects the calling records of each of its customers' accounts and includes information on the pence per minute call charges and costs applicable in a given month (by call type, time of day and package).

[2] Currently known as [✂].

~~A1.21~~A1.23 We would adjust ongoing TV revenues downwards to account for those triple-play superfast broadband customers who cease taking BT TV before the 5-year superfast broadband ACL has concluded. We would reduce ongoing TV revenues by [✂] per cent after the first [✂] months of the ACL (i.e. assume that [✂] per cent of triple-play customers continue to receive BT TV for the remaining [✂] months of the ACL). We would revisit this figure in the event that more accurate evidence was available.

~~Ongoing monthly wholesale~~Base Charges~~ costs~~

~~A1.22~~A1.24 Our guidance on how we would calculate Base Charges in respect of a monthly period~~the parameter "W" in SMP condition 14.2~~ is set out in the following subsection.

~~A1.23~~A1.25 When assessing the VULA margin we would take the wholesale charges applicable during the monthly ~~compliance~~ period (including volume discounts) published on the Openreach website.

~~Ongoing monthly retail~~Base C~~ c~~osts

~~A1.24~~A1.26 Our guidance on how we would calculate Base Costs in respect of a monthly period~~the parameter "DC" in SMP condition 14.2~~ is set out in the following subsection.

Voice costs

~~A1.25~~A1.27 The call costs of serving a superfast broadband customer would be sourced from BT's database[3] and would be based on the average calls made by superfast broadband customers over the previous six months. This would cover both in-package and OOP calls and would include product unit costs, payments to other licensed operators and the call costs will be based on the revenues for call types for which costs are not available in the BT's database (e.g. 0844, 0870, premium rate and directory enquiry calls).

Network costs

~~A1.26~~A1.28 We would estimate network costs using the following approach:

Network costs = Unit bandwidth cost x Average capacity available to each end user

~~A1.27~~A1.29 We would estimate BT's unit bandwidth cost of supplying superfast broadband services on the basis of the WBC Bandwidth unit FAC in Market 3/Market B according to the regulatory financial system used to prepare the most recent annual RFS at the time of the assessment.

~~A1.28~~A1.30 Insofar as not already reflected in the RFS methodology, we would make a downward adjustment to accurately reflect the lower backhaul costs of superfast broadband services. The adjustment would be to remove the EAD element of the EoI unit charge in Market 3/B.

~~A1.29~~A1.31 Insofar as not already reflected in the RFS methodology, we would separately include the cost of MSILs and Cable Links used as transmission bearers.

[3] See footnote to paragraph A3.18~~7~~.

Transmission bearer costs would be calculated by multiplying the prices charged by BT Wholesale (for MSILs) and Openreach (for Cable Links) by the total number of links used to support broadband traffic.

~~A1.30~~A1.32 Insofar as not already reflected in the RFS methodology, we would separately include the cost of 21CN core transmission. We would calculate the amount of 21CN core transmission costs to include in the unit bandwidth cost by dividing the total FAC (including a return on mean capital employed) of the components that cover transmission on the 21CN core network (currently component CN906) by the total bandwidth volumes of the services that use 21CN core transmission.

~~A1.31~~A1.33 Insofar as not already reflected in the 2014/15 RFS methodology, we would include in the unit bandwidth cost an appropriate allocation of costs that had previously been allocated on a future benefits basis. We would also consider whether any equivalent adjustment should be made to BT's 2013/14 RFS.

~~A1.32~~A1.34 If there are any future policy decisions affecting the calculation of BT's unit bandwidth costs within its RFS, we would take these into account at the point from which any decisions are made.

~~A1.33~~A1.35 We would use the average capacity available to each user for each product in the superfast broadband portfolio covering the same time period as the unit bandwidth cost data relates to.

Network rental overheads

~~A1.34~~A1.36 To avoid the double-counting of selling, general and administration (SG&A) costs, we will not include a separate network rental overheads item in the VULA margin assessment.

Platform and portal fees

~~A1.35~~A1.37 We would estimate the platform costs of serving a superfast broadband customer by allocating the amount recorded in the most recent annual Broadband management accounts in proportion to the total capacity used by customers on each superfast broadband product during the same period (and converting to a monthly figure).

~~A1.36~~A1.38 We would estimate the portal fees of serving a superfast broadband customer by taking the amount recorded in the most recent annual Broadband management accounts and dividing by the average broadband customer base during the same period (and converting to a monthly figure).

Product feature costs

~~A1.37~~A1.39 To calculate the cost of providing NetProtect Plus to superfast broadband customers, we would multiply licence charge [✂] by the proportion of new superfast broadband customers who take up this product feature during the previous six months.

~~A1.38~~A1.40 To calculate the cost of providing BT Cloud to superfast broadband customers, we would multiply the monthly licence fee by the proportion of new superfast broadband customers who take up this product feature during the previous six months.

~~A1.39~~A1.41 While we include BT Wi-Fi in the VULA margin assessment, we would assume that the costs of the service are zero.

~~A1.40~~A1.42 We would not include a separate item for SmartTalk costs.

Fibre development costs

~~A1.41~~A1.43 To estimate the fibre development cost of acquiring a superfast broadband customer, we would take the development spend incurred before the launch of BT's superfast broadband products and divide by the total base of BT superfast broadband customers for the monthly period ~~at the time of the assessment~~.

Ongoing SG&A costs

~~A1.42~~A1.44 We would take each of the SG&A costs in Guidance Table 1 into account when assessing the VULA margin.

Guidance Table 1 – Ongoing SG&A costs

Cost item	Cost type	Description
Marketing – retention	Short-run variable	[✂].
Customer services – ongoing	Short-run variable	[✂].
Billing & bad debt	Short-run variable	[✂].
Total Labour Cost – retention	Short-run variable	[✂].
Total Labour Cost – management	Short-run variable	[✂].
Development	Short-run variable	[✂].
Marketing – non-campaign	Long-run variable/Fixed	[✂].
Customer services – overheads	Long-run variable/Fixed	[✂].
Accommodation	Long-run variable/Fixed	[✂].
Other internal/external spend/recoveries	Long-run variable/Fixed	[✂].
People related costs	Long-run variable/Fixed	[✂].
IT spend	Long-run variable/Fixed	[✂].
Marketing platform spend	Long-run variable/Fixed	[✂].
TSO – direct, indirect and fixed	Long-run variable/Fixed	See explanation in paragraphs 6.168 to 6.200.
Miscellaneous costs	Long-run variable	

~~A1.43~~A1.45 For short-run variable SG&A costs, we would use either the Customer or Product approaches depending on whether the cost item is principally driven by the number of customers being served or the number of products being sold.

~~A1.44~~A1.46 For long-run variable or fixed and common SGA costs, we would use the Revenue approach to allocate costs to the superfast broadband portfolio.

~~A1.45~~A1.47 Guidance Table 2 sets out the allocation approach we would apply to each ongoing SG&A cost item to allocate to the superfast broadband portfolio stack. Once we have calculated the appropriate allocation to the fibre portfolio, we would then calculate the ongoing monthly SG&A cost per superfast broadband customer by dividing the amount allocated by the average base of superfast broadband customers during the data period and converting this to a monthly figure.

Guidance Table 2: Allocation approaches applied to SG&A costs

SG&A cost category	Allocation method
Marketing – retention	Customer
Customer services - ongoing	BT breakdown
Billing & bad debt	Customer
Total Labour Cost – retention	Customer
Total Labour Cost - management	Product
Development	BT breakdown
Marketing – non-campaign	Revenue
Customer services - overheads	Revenue
Accommodation	Revenue
Other internal/external spend/recoveries	Revenue
People related costs	Revenue
IT spend	Revenue
Marketing platform spend	Revenue
Miscellaneous costs	Revenue
TSO – direct and indirect	Revenue
TSO Fixed	Revenue

Ongoing TV costs

~~A1.46~~A1.48 We would estimate content and bandwidth costs of serving a triple-play superfast broadband customer by taking the amounts reported in the most recent BT TV management accounts for each BT TV package (Essentials package, Essentials Extra package) and dividing by the number of subscribers on each TV package during the period covered by the accounts. Average content and bandwidth costs per superfast broadband customer would be calculated by weighting on the basis of the number of customers ~~acquired~~ on each TV package in the ~~compliance~~ data period.

~~A1.47~~A1.49 We would estimate licences, customer premise equipment and fixed costs by taking the amounts reported in the most recent annual BT TV management accounts and dividing by the total TV subscribers during the period covered by the accounts.

~~A1.48~~A1.50 We would adjust ongoing TV costs downwards to account for those triple-play superfast broadband customers who cease taking BT TV before the 5-year superfast broadband ACL has concluded. We would reduce ongoing TV costs by [✂] per cent after the first [✂] months of the ACL (i.e. assume that [✂] per cent of triple-play customers continue to receive BT TV for the remaining [✂] months of the ACL). We would revisit this figure in the event that more accurate evidence was available.

Treatment of BT Sport costs

Calculation of the net costs of BT Sport

~~A1.49~~A1.51 We would use BT's actually incurred costs in the six months up to and including the monthly ~~compliance~~ period as set out in its accounts for ongoing costs.

~~A1.50~~A1.52 We would calculate BT's monthly costs for each sport right by converting its actual expenditure on each sports right into a constant monthly payment. We would do this by calculating the NPV of each sports rights contract over the entire contract duration up until the next contract is available (based on each contract's start date) and convert this into an equivalent ongoing monthly cost equal to that NPV. We would use the pre-tax nominal WACC relevant to the BT Consumer business prevailing during the monthly ~~compliance~~ period when carrying out this calculation.

~~A1.51~~A1.53 We would then take an average of the monthly rights cost across the six months up to and including the monthly ~~compliance~~ period.

~~A1.52~~A1.54 We would include an additional [✂]/month until March 2018 to reflect the initial launch costs of BT Sport. In the event that a more up to date estimate of the WACC is available, we would consider whether to update this figure.

~~A1.53~~A1.55 We would likely adjust the total costs of BT Sport to smooth the UEFA launch costs in 2015/16. We would expect BT to provide suitable evidence on the level of these UEFA launch costs. We are unlikely to accept that the level of these costs is higher than [✂] uplifted for CPI inflation since 2013/14.

~~A1.54~~A1.56 We would likely spread the UEFA launch costs over five years by converting them into an equivalent ongoing monthly cost with a NPV equal to the cost incurred. In calculating that NPV we would likely assume that the discount rate is equal to the monthly pre-tax nominal WACC relevant to the BT Consumer business prevailing during the monthly ~~compliance~~ period.

~~A1.55~~A1.57 In assessing the direct revenues associated with BT Sport, we would take into account BT's monthly subscription revenues from residential subscribers and commercial premises as well as BT's monthly sublicensing revenues, advertising revenues and provisioning revenues.

~~A1.56~~A1.58 We would use historical, audited data covering the six months up to and including the monthly ~~compliance~~ period. We would assume that the direct revenues over the ACL are:

- at their level as at the end of that six months, where evidence shows that revenues were growing over those six months; and
- at the historical average over those six months, where evidence shows that revenues were not growing over those six months.

~~A1.57~~A1.59 In the absence of better information, we would smooth the provisioning revenues over a period of five years using the pre-tax nominal WACC relevant to the BT Consumer business prevailing in the monthly ~~compliance~~ period. We would do this by converting them into constant ongoing monthly revenue with an equivalent NPV.

Allocating the net costs of BT Sport between to superfast broadband

~~A1.58~~A1.60 When allocating the net costs of BT Sport to BT's superfast broadband portfolio, we would adopt the following two step approach.

~~A1.59~~A1.61 First we would calculate the total number of BT residential broadband subscribers that (i) have an active BT Sport connection (i.e. they meet the requirements to watch these channels without taking further action); and (ii) pay a discounted price for BT Sport (relative to non-BT broadband subscribers) or receive it for 'free'. We would use whatever proportion of that total is accounted for by superfast broadband subscribers to determine the proportion of the net costs of BT Sport that are allocated to superfast broadband subscribers. Should BT change the terms under which BT broadband customers can watch BT Sport in a way that we consider manipulates our measure of the take-up of BT Sport, we would reconsider our approach to calculating the proportion used to allocate the net costs of BT Sport.

~~A1.60~~A1.62 Second, we would calculate the net BT Sport cost per superfast broadband customer by dividing the net costs of BT Sport allocated to BT's superfast broadband portfolio by the total number of BT Consumer Infinity and Plusnet Fibre customers during the monthly~~compliance~~ period.

Upfront ~~c~~Costs

~~A1.61~~A1.63 Our guidance on how we would calculate Upfront Costs in respect of a monthly period~~the parameter "UC" in SMP condition 14.2~~ is set out in the following subsection.

Connection costs

~~A1.62~~A1.64 We would take into account the costs of GEA Connection, GEA Managed Install, WLR Connection (or any future equivalents) and retail-level connection activities.

- GEA Connection charges and GEA Managed Install charges would be the charges applicable during the previous six months.
- To estimate the WLR Connection cost, we would firstly calculate the proportion of connections that incur Openreach charges based on the volumes of superfast broadband customers that were acquired from other operators in the previous six months. We would then calculate the average charge paid for these connections applicable during the previous six months on the basis of the split of acquired customers that required a new line and those that needed an existing line to be migrated using data from BT's management information system.[4]

[4] Currently known as [✂].

- Retail-level activity costs would be estimated using the most recent data available from BT's regulatory financial reporting system.[5]

SG&A costs (upfront acquisition)

~~A1.63~~A1.65 Guidance Table 3 sets out the upfront acquisition SG&A costs that we would take into account.

~~A1.64~~A1.66 For upfront acquisition SG&A costs, we would allocate on the basis of the number of superfast broadband customers acquired as a percentage of the total number of customers acquired by BT Consumer during the data period. For example, if a third of all BT Consumer customer acquisitions are for superfast broadband products, we would allocate a third of the total SG&A upfront acquisition costs to the superfast broadband portfolio cost stack. To calculate acquisition SG&A costs per superfast broadband customer, we would then divide this figure by the number of superfast broadband customers acquired during the data period.

Guidance Table 3 –SG&A upfront acquisition costs

Cost item	Description
Marketing – acquisition	[✄]
Affiliates / pay-per-click	[✄]
Customer services - upfront	[✄]

Sales costs

~~A1.65~~A1.67 We would source sales costs from BT's most recent system[6] which provides a breakdown of the various activities [✄]. The sales costs to be allocated to the superfast broadband portfolio would be estimated by multiplying the proportion of staff time used to acquire superfast broadband customers by the total labour cost of such staff time. To calculate sales costs per superfast broadband customer acquired, we would then divide this figure by the number of superfast broadband customers acquired during the data period.

Voucher costs

~~A1.66~~A1.68 To calculate the cost of vouchers used for the purposes of acquiring a superfast broadband customer, we would take BT's spend on vouchers during the previous six months and divide this by the number of superfast broadband customers BT acquired during this period.

Discount costs

~~A1.67~~A1.69 We would treat several months' discount to the monthly subscription prices for newly acquired superfast broadband customers as an upfront cost by multiplying the amount of the discount by the number of months during which it applies. When

[5] [✄].

[6] Currently known as [✄].

assessing the VULA margin, we would use the discounts that applied to each product tier during the monthly ~~compliance~~ period.

Router costs

~~A1.68~~A1.70 We would source the router cost related to the acquisition of a superfast broadband customer from the unit price as set out in the contract BT has agreed with its supplier. We would not include the cost of delivery of the router, as this would be covered by an equivalent postage and packaging charge received from new customers.

Event charges

~~A1.69~~A1.71 We would include the following event charges in the U~~u~~pfront ~~acquisition~~ ~~c~~Costs stack.

- BT Expedites – a charge payable to Openreach to carry out the customer installation more quickly than is standard. We would calculate the BT Expedite cost of acquiring a superfast broadband customer by taking the spend on expedites for superfast broadband products over the previous six months and divide this by the number of superfast broadband customers acquired during this period.

- BT Abortive Visits – a charge payable to Openreach when an engineer visit is unsuccessful due to not being able to access the customer's property. We would calculate the BT Abortive Visits cost of acquiring a superfast broadband customer by multiplying the abortive visits charge by the percentage of superfast broadband customers acquired who had an abortive visit over the previous six months.

- Modify upstream order charges – a charge payable to Openreach to cancel, amend or modify a customer order. We would calculate the Modify upstream order charge cost of acquiring a superfast broadband customer by multiplying the modify order charge by the percentage of superfast broadband customers acquired who had an order cancelled or amended over the previous six months.

- SFI and TRC – charges payable to Openreach to cover the cost of engineers investigating and repairing faults on the Openreach network. We would calculate the average SFI and TRC costs incurred to serve a superfast broadband customer by (i) multiplying the total payments BT Consumer made to Openreach for these services during the previous six months by the percentage of BT Consumer lines that were taken by superfast broadband customers during this period; and (ii) dividing this figure by the average superfast broadband customer base over the previous six months and converting to a monthly figure.

Upfront TV costs

~~A1.70~~A1.72 We would take the following upfront TV costs into account when assessing the VULA margin.

- YouView box – superfast broadband customers who sign-up to BT TV are provided with a YouView set-top box at no extra charge. We would source the YouView box cost to be included in the superfast broadband portfolio cost stack from the contract BT has agreed with its supplier.

- Other connection costs – there are a number of connection costs BT incurs when connecting customers with its TV service, including [✂]. We would estimate the other connection costs to include in the superfast broadband portfolio cost stack by taking the amount recorded in the most recent annual BT TV management accounts and dividing by the number of TV additions during the period covered by the accounts.

Upfront R~~r~~evenues

~~A1.71~~A1.73 Our guidance on how we would calculate Upfront Revenues in respect of a monthly period~~the parameter 'UR' in SMP condition 14.2~~ is set out in the following subsection.

~~A1.72~~A1.74 We would use the connection revenues applicable during the monthly ~~compliance~~ period.

Supplementary guidance issued on 13 August 2015

~~A1.73~~A1.75 During the August 2015 to July 2016 (inclusive) ~~compliance~~ monthly periods ('the Deferral Period'), we would assess the VULA margin in accordance with the rest of our guidance except that the incremental costs and revenues associated with the UEFA Channels (BT Sport 2, BT Sport Europe and ESPN) are excluded.

~~A1.74~~A1.76 During the August 2016 to April 2017 (inclusive) ~~compliance~~ monthly periods ('the Recovery Period'), we would assess the VULA margin in accordance with the rest of our guidance, including the incremental costs and revenues associated with the UEFA Channels, but with an adjustment to reflect the Total Shortfall.

~~A1.75~~A1.77 The adjustment to reflect the Total Shortfall would be calculated as follows.

- For each monthly ~~compliance~~ period during the Deferral Period, we would calculate (in £m) the increase or decrease in the net cost of BT Sport allocated to superfast broadband subscribers that would result in Projected Monthly Revenue plus Upfront Revenue being equal to Projected Monthly Charges plus Projected Monthly Costs plus Upfront Costs~~ plus Upfront Revenue being equal to plus~~ Upfront Costs~~BT being on the boundary between passing and failing the margin assessment~~ under the approach set out in the rest of our guidance.

- The Total Shortfall at the end of the Deferral Period (in £m) is the sum of the NPV of all those monthly decreases less the sum of the NPV of all those monthly increases. A Total Shortfall exists if the monthly decreases outweigh the monthly increases.

- At the start of any monthly ~~compliance~~ period during the Recovery Period, if there is a Total Shortfall then we would calculate what monthly £m amount has, over the remainder of the Recovery Period, the same NPV as the Total Shortfall. During that monthly ~~compliance~~ period that monthly £m amount would be added to the £m net cost of BT Sport allocated to superfast broadband subscribers. At the end of that monthly ~~compliance~~ period we would calculate (in £m) the increase in the net cost of BT Sport allocated to superfast broadband subscribers that would result in Projected Monthly Revenue plus Upfront Revenue being equal to Projected Monthly Charges plus Projected Monthly Costs plus Upfront Costs~~ Revenue plus Upfront Revenue being equal to plus Upfront Costs~~~~BT~~

~~being on the boundary between passing and failing the margin assessment~~ under the approach set out in the rest of our guidance. That amount would be deducted from the Total Shortfall to give a new figure from the Total Shortfall that is used in the next monthly ~~compliance~~ period.

- If no Total Shortfall exists during any monthly ~~compliance~~ period ~~during~~ in the Recovery Period (either because no shortfall was accumulated during the Deferral Period or because an amount equal to or greater than any shortfall has been recouped earlier in the Recovery Period) then no adjustment is made.

- The discount rate used in this calculation would be equal to the monthly pre-tax nominal WACC relevant to the BT Consumer business prevailing in the monthly ~~compliance~~ period.

Glossary

Access Directive	One of the directives comprising the Common Regulatory Framework. It deals with setting the basic rules, procedures and principles for imposing access and interconnection obligations on undertakings with significant market power.
ACL	Average customer lifetime. The average length of time a customer subscribes to an operator for the supply of **broadband** services. We calculate this figure using historical churn rates.
ARPU	Average revenue per user. The average revenue generated per user, usually derived by dividing the total revenue by the number of subscribers.
Broadband	A service or connection which is capable of supporting always-on services which provide the end user with high data transfer speeds.
BT	BT Group plc and any subsidiary or holding company thereof including British Telecommunications plc and **BT Wholesale**.
BT Business	Retail division of **BT** providing retail services, including **broadband**, to business and corporate customers.
BT Consumer	Retail division of **BT** providing retail services, including **broadband**, to residential customers.
BT Sport	A package of premium sport channels offered by **BT**, including BT Sport 1, BT Sport 2, **ESPN UK**, BT Sport 1 HD, BT Sport 2 HD and ESPN HD.
BT TV	A subscription **IPTV** service offered by **BT**. BT TV is available over the **DTT** platform using a BT Vision set top box. It is also available over a combination of **DTT** and Multicast services using the YouView platform.
BT Wholesale	The wholesale division of **BT** that runs BT's network services and sells interconnection products to **CPs**.

CA03	Communications Act 2003. The Act setting out **Ofcom**'s functions, powers and duties with regard to, among other things, electronic communications.
CA98	Competition Act 1998. The Act prohibiting agreements preventing, restricting or distorting competition and prohibiting the abuse of a dominant position.
CMA	Competition and Markets Authority.
Common costs	Costs which are shared by a number of different services supplied by a firm.
CP	Communications provider. A person who provides an electronic communications network or an electronic communications service.
CRF	Common Regulatory Framework. 2002 EU legislation, subsequently amended, comprising Directives commonly known as the **Framework Directive**, the Authorisation Directive, the **Access Directive**, The Universal Service Directive and the Privacy Directive.
DCF	Discounted cash flow. A method of valuing a project, company or asset using the concepts of the time value of money.
DTT or DTTV	Digital terrestrial television. Encompassing over 100 television, radio and interactive services broadcast via the UK's terrestrial television network and receivable with a standard television aerial. The majority of services, including the five former analogue terrestrial channels and their offshoots, are broadcast free-to-air, and a further selection of encrypted **Pay TV** services (such as **BT Sport**) are also available.
Dual-play	Retail bundles that include voice, telephony and **broadband**.
EEO	Equally efficient operator. An operator with the same costs and revenues as the chosen benchmark.
EoI	Equivalence of Inputs. The concept established by **BT**'s undertakings in which **BT** provides, in respect of a particular product or service, the same product or service to all **CPs**

	(including **BT**) on the same timescales, terms and conditions (including price and service levels) by means of the same systems and processes, and includes the provision to all **CPs** (including **BT**) of the same commercial information about such products, services, systems and processes.
ESPN UK	Originally an abbreviation for Entertainment and Sports Programming Network. ESPN Inc. is a US-based global cable and satellite television channel. ESPN UK is a sports television channel in the UK and Ireland owned by BT Group under licence from American sport broadcaster ESPN Inc. The channel was operated by ESP from August 2009 to July 2013, when it was sold to **BT** and became part of its **BT Sport** package focusing on international sporting events, especially American sports. Programming is available in standard and high definition formats.
FAC	Fully allocated costs. The accounting approach under which all the costs of the company are distributed between its various products and services.
FAMR	Fixed Access Market Reviews. **Ofcom**'s review of the following markets (as defined in those reviews): wholesale local access, wholesale fixed analogue exchange lines, ISDN2 and ISDN30.
FAPL	FA Premier League. The top tier English professional league for men's association football clubs.
Framework Directive	One of the directives comprising the Common Regulatory Framework. It deals with the main principles, objective and procedures for an EU regulatory policy regarding the provision of electronic communications services and networks.
FRAND	Fair, reasonable and non-discriminatory condition. Where **BT** refers to a FRAND condition, it is referring to the regulatory conditions imposed on **BT** in the 2014 **FAMR** Statement which require it to provide network access on fair and reasonable terms, conditions and (in certain cases) charges (Condition 1) and to not unduly discriminate against other operators (Condition 4).

Infinity Brand name for a number of **BT**'s **superfast broadband** products.

IP Internet protocol. A network technology used in packed-switched networks to route packets across network nodes.

IPTV Internet protocol TV. A system through which television services are delivered over the internet, instead of being delivered through traditional terrestrial, satellite signal and cable television formats. Unlike downloaded media, IPTV offers the ability to stream the media in small batches, directly from the source, and as a result, a client media player can begin playing the data (such as a movie) before the entire file has been transmitted (known as streaming media).

ISP Internet service provider.

LLU Local loop unbundling. A process that allows companies other than **BT** to install their telecoms equipment in the local **BT** exchange, allowing these companies to offer their own direct phone or **broadband** services to customers.

LRIC Long-run incremental cost. The cost that can either be avoided by stopping, or incurred by increasing, production of a specified product or service, on the basis that all other products and services are still being provided at their original level.

LRIC+ A measure of cost that is equal to **LRIC** plus an additional element for the recovery of non-attributable **common costs**.

MDF Main distribution frame. A termination point within the telephone exchange where exchange equipment and terminations of local loops are connected by jumper wires.

MES Minimum efficient scale. The scale of production where the internal economies of scale have been fully exploited.

NGA Next generation access. Wired access networks which consist wholly or in part of optical elements and which are capable of delivering **broadband** access services with enhanced characteristics (such as higher throughput) as compared to those provided over already existing copper

	networks. In most cases, NGAs are the result of an upgrade of an already existing copper or co-axial network.
NPV	Net present value. The sum of the present value of cash inflows and outflows.
Ofcom	Office of Communications.
OOP	Out of package. Used in relation to call and data revenues. OOP revenues are earned when customers make call outside of those included in their call package, or use data that exceeds their monthly data allowance.
Openreach	**BT**’s infrastructure division, established in 2006 pursuant to undertakings offered by **BT** and accepted by **Ofcom**, pursuant to the Enterprise Act 2002, to ensure that rival telecom operators have equivalence of access to **BT**’s local network.
Pay TV	Subscription-based television services.
Plusnet	Plusnet plc, a **BT** subsidiary company, providing retail voice and **broadband** services and marketed by **BT Consumer** as a value brand.
REO	Reasonably efficient operator. An operator with costs and revenues considered reasonable in relations to the provision of particular products and services.
SG&A	Sales, general and administration costs. Category of costs **BT** records that includes all direct and indirect selling expenses (eg marketing, billing) and general administrative expenses (eg office space rent, heat and electricity).
Sky	Sky UK Ltd.
SLU	Sub-loop unbundling. Like **LLU**, except that communications providers interconnect at a point between the exchange and the end user, usually at the cabinet.
SMEs	Small and medium-sized enterprises. Defined in the UK as any business with fewer than 250 employees.
SMP	Significant market power. The significant market power test is set out in European Directives. It is used by NRAs such as

	Ofcom, to identify those **CPs** which must meet additional obligations under the relevant Directives.
SMPF	Shared metallic path facility. The provision of access to the copper wires from the customers' premises to a **BT MDF** that allows a competing provider to provide the customer with **broadband** services, while **BT** continues to provide the customer with conventional narrowband communications.
Superfast broadband	A **broadband** connection that can support a maximum download speed of 30Mbit/s or greater.
TalkTalk	TalkTalk Telecom Group Plc.
Triple-play	Retail bundles that include voice telephony, **broadband** and TV.
Virgin	Virgin Media.
VULA	Virtual unbundled local access. An access remedy first imposed by **Ofcom** in the 2010 **WLA** Statement that requires **BT** to provide access to its **NGA** network in a way that is similar to **LLU**. It provides a connection from the nearest 'local' aggregation point to the customer premises.
WACC	Weighted Average Cost of Capital. The rate that a company is expected to pay on average to all its security holders to finance its assets.
WBA	Wholesale **broadband** access. Between the **WLA** market and retail market for provision of fixed telecommunications services to end-users.
WBC	Wholesale **broadband** connect. A **BT WBA** product, using ADSL2+ technology to offer maximum downstream speeds of up to 24Mbit/s, or using **Openreach**'s GEA product to offer speeds above 30Mbit/s where GEA is available.
WBMC	Wholesale **broadband** managed connect. A type of **broadband** product that **BT Consumer** purchases from **BT Wholesale** in order to provide **broadband** services.
WCC	Wholesale content connect. A product offered by **BT Wholesale** that allows customers to efficiently transmit video over **broadband**.

WLA Wholesale local access. Fixed telecommunications infrastructure, specifically the physical connection between end users' premises and a local exchange.

WLR Wholesale line rental. The regulated wholesale exchange line service provided by BT both to its own downstream businesses and to competing **CPs**.

WMO Wholesale must offer obligation. A rule that requires **Sky** to offer its Sky Sports 1 and 2 channels to other **Pay TV** retailers on a wholesale basis.

YouView An internet TV service in the UK, formed as a joint venture between three telecommunication companies (**BT**, **TalkTalk** and Arqiva) and four broadcasters (BBC, ITV, Channel 4 and Channel 5). YouView provides access to free-to-air **DTT** channels and to TV on-demand services via a 'hybrid' set-top box, connected with both a **broadband** internet connection and a television aerial. Catch-up and on-demand content is delivered over the internet.