

Arqiva Response: OTA-BTS Consultation on Arqiva's Regulatory Accounts

Arqiva welcomes the opportunity to respond to the consultation published by the Office of the Adjudicator – Broadcast Transmission Services (OTA-BTS) on Arqiva's Regulatory Accounts.

We would note that the production of the Regulatory Accounts is primarily to discharge Arqiva's obligations under the Undertakings. The Regulatory Accounts are also used as an element of the generation of charges for the regulated services for a number of broadcast transmission service customers. We look forward to the outcome of the consultation to continue to advance the approach to the Regulatory Accounts recognising that they have steadily developed over the last 15 years and bearing in mind this is a complex business function.

Set out below are our responses to the questions in the consultation.

We note that the OTA-BTS wishes to publish responses in full but, as parts of our responses refer to bespoke contractual arrangements, we would ask that the OTA-BTS treats our full response as confidential. We have separately provided a redacted version for publication.

Responses to Consultation Questions

Question 1

How often does someone in your business or organisation read and analyse Arqiva's Regulatory Accounts and the supporting information? What purposes are they used for?


Response 1

As noted in the Consultation, the Regulatory Accounts are prepared by Arqiva in order to comply with paragraph 15 of the Undertakings¹. They are aimed at presenting a view of the affairs of the regulated elements of Arqiva's business, much as statutory accounts would for the wider operations of any company. Arqiva invests significant resources and system commitments to produce the Regulatory Accounts and engages an independent auditor as required in the Undertakings to provide assurance that the Regulatory Accounts are an accurate view of the operations of the regulated business.


Arqiva is also required under the Undertakings to be able to demonstrate that charges for Transmission Services or Network Access are *"reasonably derived from the costs of provision allowing an appropriate mark up for the recovery of common costs and including an appropriate*

¹ Paragraphs 15.1 to 15.10 of the Undertakings

*return*². The Regulatory Accounts are used by Arqiva in the current regulated pricing mechanism as representative of a component of the costs that Arqiva incurs for its operating expenditure and has the ability to recharge to customers. In following the approach agreed with the Office of the Adjudicator, operating expenditure values for Network Access from the Regulatory Accounts are used in the cost and pricing model to generate network access operating charges for a reference offer.

The Regulatory Accounts also have a further purpose driven by certain customers over the years. As the accounts are audited and overseen by the Office of the Adjudicator, certain customers have included the Regulatory Accounts as a reference point[].

If the Regulatory Accounts were no longer required, Arqiva would still be required to undertake a similar exercise to accomplish a realistic segregation of Arqiva's operating cost base to determine (and be able to demonstrate) relevant charges in a fair and consistent way both for existing agreements and to support future reference offers and regulated service charges.

Arqiva's Regulatory Accounts are typically referred to by Arqiva on a regular basis (on average every two months) both for specific contractual arrangements, [] as well as for any relevant new pricing with elements of operating expenditure included.

Question 2

How useful are the Regulatory Accounts for your business or organisation?

Response 2

As set out in Response 1 above, the Regulatory Accounts are critical for Arqiva's compliance with the Undertakings both in respect of paragraph 15 and to underpin Arqiva charges for operating expenditure under the regulatory pricing mechanism.

Certain customers rely on the Regulatory Accounts for bespoke contractual mechanics and, as such, the Regulatory Accounts are needed for those contracts. The impact on Arqiva and customers in proposing any changes to the Regulatory Accounts should be carefully considered for three reasons: i) to ensure that Arqiva is still able to meet its obligations in respect of regulatory pricing; ii) to ensure that agreed contractual positions and principles are maintained; and iii) for logistical and practical purposes – if Arqiva has to create bespoke accounts for certain customers or categories of customers then this could end up being more time consuming and expensive than is the case currently. Further, the allocation of costs across the customer base would need to be carefully considered.

² Paragraphs 9.3.1 and 11.3.1 of the Undertakings

Question 3

In the current format, how clear and easy to understand is the financial information? How easy is it to track year-on-year changes and identify trends?

Response 3

As noted above, the aim of the accounts pursuant to the Undertakings is to set out the state of the regulated business affairs in much the same way as the statutory accounts do for the wider Arqiva Group business.

As noted in the Regulatory Accounting Principles and Methodologies (RAPM) document published alongside the Regulatory Accounts, the Regulatory Accounts are meant to be read in conjunction with the statutory accounts. It is noted that the presentation of both the statutory and regulatory accounts is in a standard format which is used widely across a number of businesses. The accounts – statutory and regulatory - assume that the reader will have a degree of financial understanding to be able to review these accounts, in line with other published accounts. Using a standard format also reduces the potential complexity of preparing the Regulatory Accounts in that finance personnel understand the approach as well as enabling a consistent approach across both the statutory and regulatory accounts. Having a consistent approach and format allows any variations year on year to be recognised without adding the complexity of converting between different approaches for different years. In this context, we believe that the financial information is clear and easy to understand.

While we do not collect specific data on queries, we have looked back over the past 5 years and we estimate that we have received less than a dozen queries on the Regulatory Accounts from customers in that time. These queries can broadly be split into the following categories: i) customers following up on contractual mechanisms in their contracts that refer to the Regulatory Accounts; and ii) customers wanting to understand better the published information and how it may be used in future service agreements usually ahead of renewals or a new agreement and often following staffing changes in a customer's business.

Question 4

Is there additional information would you like to see and if so, why? Could some information be dropped and, if so, why?

Response 4

Arqiva has produced the Regulatory Accounts including information as required to discharge its obligations under the Undertakings and we consider that the existing information requirements enable us to provide a representation of the state of the regulated business activity for a given year when read in conjunction with the Arqiva Group statutory accounts. In terms of new information or presenting the accounts in a different format, we would have two points for the Adjudicator to note: i) pricing for customers is done specifically on the assets and equipment for

sites that individual customers use and so an aggregated accounts level view would therefore be unlikely to reflect exactly the treatment of balance sheet costs in any of our customers; and ii) producing additional information may require investment into new systems and more staff and make Arqiva's regulatory audit more complex, which in turn would increase overall operating expenditure costs and could impact customer pricing. We look forward to the outcome of the consultation.

Question 5

Do you encounter any difficulties in navigating or understanding the documents? Do you have views about whether an alternative format or way to present the information would help enhance their usability?

Response 5

The documents follow a fairly standard format for accounts and Arqiva has been working with and developing (under the oversight of the OTA-BTS) these documents for over 15 years. As such, we do not encounter any difficulties in navigating or understanding these documents.

As noted in the response to Question 3, the format used follows a standard presentation of financial information and so we believe this should be accessible. We look forward to the outcome of the consultation.

We would caution against any variation which would make the preparation of these documents more complex and which may, in turn, also make the documents themselves more difficult to read.

Question 6

If a stakeholder has questions arising from the Regulatory Accounts, is it clear how to get answers?

Have you any experience of how well the process for follow-up works?

Response 6

We aim to work in an open and transparent manner with our stakeholders. As noted in Response 3 above, we estimate that we have received less than a dozen queries in the past 5 years. Many of these are more bespoke contractual queries rather than specific to the Regulatory Accounts and, to the extent we have had any complaints that our responses have not been clear, this tends to have been a misunderstanding of the level of detail required (for example, where a customer has used the accounts for many years and there is then a change in personnel) or to have been related to areas where we have to keep information at a high level to protect confidentiality across our customer group.

Please note that the Regulatory Accounts are provided to give a view of Arqiva's activities and any changes year by year. They are not designed to give a customer view related to a specific customer's service charges as there are significantly varying levels of service coverage and site usage between different customers.

[🔗] we aim to be as transparent and open as possible in relation to these commercially agreed charges, supplying additional information where appropriate while balancing our obligations of confidentiality across the customer base.

Question 7

In your opinion, which of the options in Section 2, i.e. a), b), c) or d), most closely reflects your views and why?

- a) remain unchanged;*
- b) be left largely unchanged with relatively minor changes;*
- c) be changed either to be more useful to stakeholders or to reduce the resources required to produce them; or that*
- d) the requirement to produce the Regulatory Accounts should be lifted.*

Response 7

We are naturally supportive of any changes which reduce resources required to produce the Regulatory Accounts ultimately benefiting both Arqiva and its customers. However, the current contractual pricing methodology for Arqiva to charge operating expenditure costs is usually derived from the Regulatory Accounts and we and some of our customers currently rely on the Regulatory Accounts for contractual purposes. As such, we consider there is still a need for Regulatory Accounts and we cannot support option d). We also do not believe that option d) would result in resource or cost savings given that those resources would still be required to support the existing pricing methodology and agreed contractual mechanics. We would therefore support options a), b) or c) provided that any changes in b) or c) are supportive of and do not impact the existing regulatory pricing methodology and contractual mechanics agreed with our customers.

If the Adjudicator is considering options c) or d) following this consultation, given the potential for knock-on impacts, we would ask that there is a more detailed consultation and impact assessment reflecting the changes proposed prior to settling on a decision.

Question 8

Are there new tools or technologies that could be adopted to improve the transparency, usability or usefulness of the Regulatory Accounts?

Response 8

The Regulatory Accounts are published as a PDF document in line with Arqiva's statutory accounts. We look forward to the outcome of the consultation to understand if there are any tools that could improve the usefulness of the Regulatory Accounts.

However, please note that specific developments could potentially need to be funded by customers, and there could be implications to maintain any additional variations into future years so as to allow ongoing year-on-year comparisons.

Question 9

Are there other regulatory accounts which you regard as examples of best practice and what do you regard as their strengths in the context of the Arqiva regulated businesses?

Response 9

Regulatory accounts are, by their nature developed for certain purposes, which vary from industry to industry. The paper referred to by OTA-BTS on the role of regulatory accounts in regulated industries³ also emphasises the importance of consistency over time. In this context, we note that these regulatory accounts have been developed gradually over the years under the oversight of the OTA-BTS to reflect Arqiva's transmission service business and would caution against attempting to mix and match from different regulatory accounts. For example, the business to business requirements related to Arqiva will be different to other regulated service sectors which have a more business to consumer relationship with end-users.

Question 10

Bearing in mind the resources needed to produce Regulatory Accounts, do you think there is still a need for Arqiva to produce them in some form?

Response 10

Yes. Under the current contractual pricing methodology Arqiva usually charges for its operating expenditure costs. These costs are derived from the Regulatory Accounts. If the Regulatory Accounts were no longer required, then we would still need to undertake work to ascertain the relevant costs that are required to be charged for providing the services to Arqiva's customers.

Further, even if there were no regulatory requirement, there are contractual mechanics [⌘] which rely on these accounts.

³ Paragraph 2.5 of the paper at https://www.uregni.gov.uk/files/uregni/media-files/Oct_2000_The_Role_of_Regulatory_Accounts_in_Regulated_Industries.pdf

Question 11

Are there other views, in areas not covered by the previous ten questions, which you believe are relevant to this consultation?

Response 11

[🗂] we are not aware of other views which would not be covered by the previous questions.

We look forward to the outcome of the consultation.