

Telephone call between Jeff Astle and Piers Collins (“PC”), News Broadcasting, that took place on 24th January 2025 in relation to REF 2/2024: Consultation on Arqiva’s Regulatory Accounts (“RA”)

The purpose of the consultation is to explore views of stakeholders more systematically and understand the relevance and usefulness of the RA, and if and how they may be changed to help inform the Adjudicator’s assessment and decisions about future requirements for the RA.

Call Notes

- PC mentioned he has had a long involvement in procuring transmission services from Arqiva, including both NGW/AQ in the pre-merged form since 2004. Therefore, he has a relatively long memory and perspective on it all. In general, PC’s view was that the monopoly situation is not good for customers, and the Undertakings do not remedy the lack of competitive tension and the lack of innovation in broadcast transmissions services that has resulted by only having one broadcast transmission services vendor. In a world where streaming is taking prominence, the future of broadcast transmission looks uncertain, especially if out-dated regulated pricing is shielding Arqiva from driving through efficiencies and substantial price reductions.

Q1-4

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?

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

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?

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

- PC mentioned that he looks at the RA when they are published and that they provide a useful source for reference.
- PC’s main observations from the RA are that:
 - EBITDA margins look very high (>70%);
 - capex looks very low (just £3m in FY23 and £12m in FY24) suggesting a lack of re-investment;
 - pre-tax operating cash flow as a percentage of fixed assets looks very high (over 20% in FY 23 and FY24), and
 - all these things look odd in the context of regulated pricing, which PC understood should govern the returns Arqiva is able to make.
- PC doesn’t understand how this disconnect happens and would appreciate an explanation in the form of a reconciliation between the return on assets Arqiva seems to be generating as implied by the RA, and the regulated pricing which limits Arqiva’s returns to its WACC.
- PC stated that in the absence of a disconnect between regulated pricing and revenues reported in the RA, there must be a very large disconnect between the Fixed Assets reported on the RA balance sheet

(as per UK financial reporting rules) and the valuation of Arqiva's fixed assets under the regulated pricing regime. If this was the case, then PC would like to understand why this difference was justifiable/reasonable.

- PC would also like to see capex split out by Network Access and by MTS.

Q5-7

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?

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

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?

- PC stated that the format of the RA looked standard, and therefore easy to follow for someone who regularly looked through these sorts of documents.
- PC's concern was the lack of transparency and disclosure.
- As stated above, PC would like to see a reconciliation between these RA and the returns implied by the regulated pricing, with a clear explanation of the differences.
- PC wanted to see explicit explanation as to what's happening in terms of specific investments in the infrastructure on the regulate business – as Capex seems to be small. This is important as PC noted that there are no real incentives acting on Arqiva to refresh infrastructure.
- PC stated he would also like to be able to understand the level of debt that sits within Arqiva, and see specific disclosure around the repayment terms and profile of that debt, so that an assessment could be made as to how supportable Arqiva's leverage was. PC noted this visibility was important given that Arqiva is solely responsible for operating nationally important infrastructure.
- PC mentioned that he had asked questions of the RA in the past but had not been able to get any satisfactory answers, and was therefore encouraged by this consultation.

Q 8 -11

In your opinion, which of the options in 2 a), b), c) or d), most closely reflects your views and why? remain unchanged; left largely unchanged with relatively minor changes; changed either to be more useful to stakeholders or to reduce the resources required to produce them; or requirement to produce RA lifted.

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

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?

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?

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

- PC stated that he believed the RA need an overhaul – because they don't tell a clear picture.
- The RA must be kept in place as they are the only insights customers get into the Arqiva business, and even in their current format they highlight and flag some problems.
- PC reiterated that if the Adjudicator could direct Arqiva to provide a reconciliation between Arqiva's regulated WACC and the return on capital that these accounts imply that Arqiva is generating, that would be really helpful.
- Further disclosure on capex would also be of benefit.
- Specific disclosure on Arqiva's debt levels and the sustainability of this leverage is also required given Arqiva's responsibilities to maintain nationally important infrastructure.

Consultation Coversheet (Office of The Adjudicator Broadcast Transmission Services)

Consultation Title: Consultation on Arqiva’s Regulatory Accounts (December 2024)
Name of Respondent: Piers Collins
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Transparency

As explained in our Consultation Principles, whenever possible responses will be published in full. If you want to request that parts of your submission are not published, please give details and reasons.

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(Include as much detail as you believe is relevant to explain why we should decide not to publish particular parts of your submission.)

Declaration

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that OTA-BTS can publish. In supplying this response, I understand that OTA-BTS may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations.

If I have sent my response by email, OTA-BTS can disregard any standard e-mail text about not disclosing email contents and attachments.

Name: Piers Collins
Date: 11 February 2025
Signed: