Physical interconnection costs – note for OPTA

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1 Introduction

As part of OPTA's work to close the setting of regulated wholesale interconnection tariffs, OPTA has asked Analysys Mason to update the calculation of physical interconnection costs to ensure that they are presented on a 'plus BULRAIC' cost basis.

2 Calculations

OPTA presented the following physical interconnection cost components in 2010.

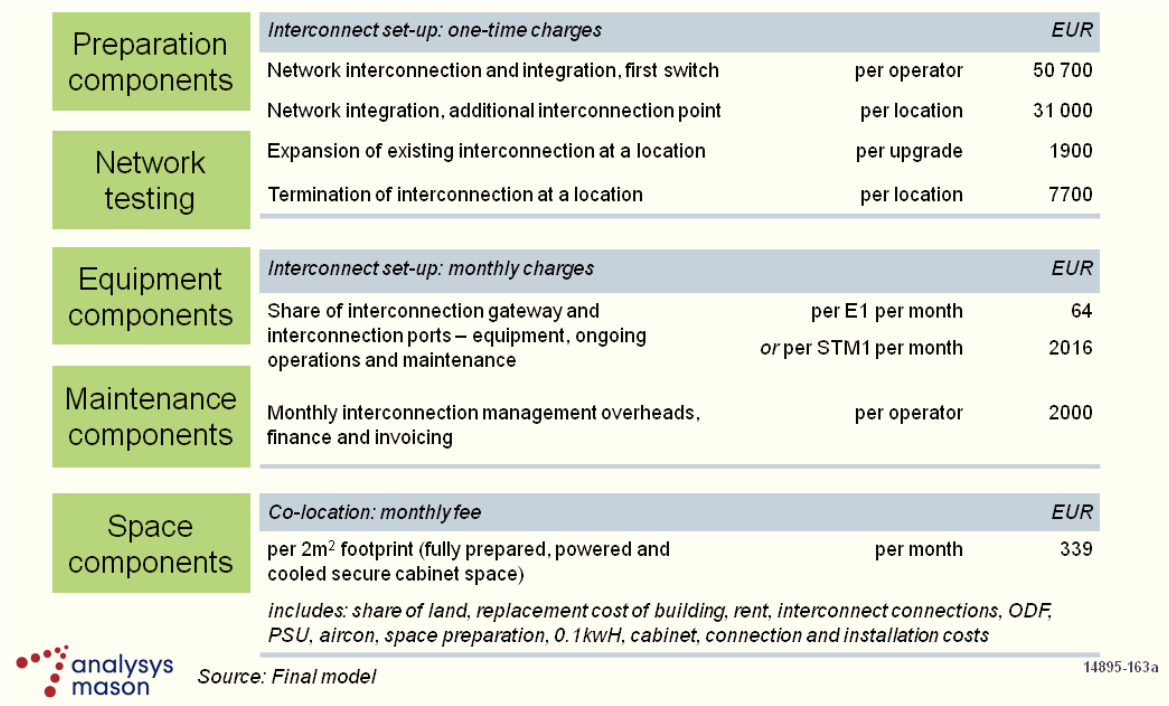

Figure 1: Interconnection cost components [Source: Final results, 20 April 2010]

In this calculation, *preparation*, *network testing* and *maintenance* charges were composed entirely of an hourly manpower calculation (effort × hourly rate).

The *equipment* components were calculated from a proportion of annualised costs associated with:

- purchasing the gateway or port cards
- installing and commissioning the equipment
- associated operating expenditures such as maintenance, support, etc.

The *space* component cost, as indicated includes a variety of cost elements. Each of these covers similar annualised cost elements as in the equipment component costs.

The issue of whether the calculated results are 'plus BULRAIC' depends essentially on the amount of common costs incorporated in the relevant component cost calculations. Specifically, the main fixed network cost model also contains various annualised asset costs, to which is added a mark-up for common costs (the 'plus'). The calculated mark-up is for business overheads (approximately 5% equi-proportional mark-up to incremental network costs).

The staff cost associated with the interconnection team (approx. 4 FTE) has been pre-extracted from the business overhead department before the subsequent network cost calculations.

In addition, the fixed model contains network building costs. These building costs are shared out according to the traffic passing through the buildings (which depends on the functional layer of the building). As a result of the existing allocation of building costs, the plus BULRAIC of interconnection traffic *minutes* already incorporates a share of building space costs.

3 Conclusions

Preparation, *network testing* and *maintenance* cost components are based on an hourly manpower charge which is extracted as proportion of business overhead costs. The hourly manpower charge covers the entire per-hour costs of the interconnection team's work – their direct wages plus a share of all indirect costs (office space, fixtures and fittings, vehicles, support, IT, HR, management, admin, etc.). To add a further buildings or business overhead mark-up to these hourly costs would be double-counting.

As the plus BULRAIC of interconnection traffic *minutes* already includes a relevant share of building space costs, it is not necessary to add a building space mark-up to the *equipment* costs contained in the physical interconnection calculation.

However, a 5% business overhead mark-up to interconnection equipment has not been included in the physical interconnection cost calculation. Therefore *Equipment* and *space* components of physical interconnection should be increased by 5% to account for the business overheads on technical activities. This would ensure a full coverage of plus BULRAIC costs for these physical interconnection activities.

Updated results (rounded) are shown below.

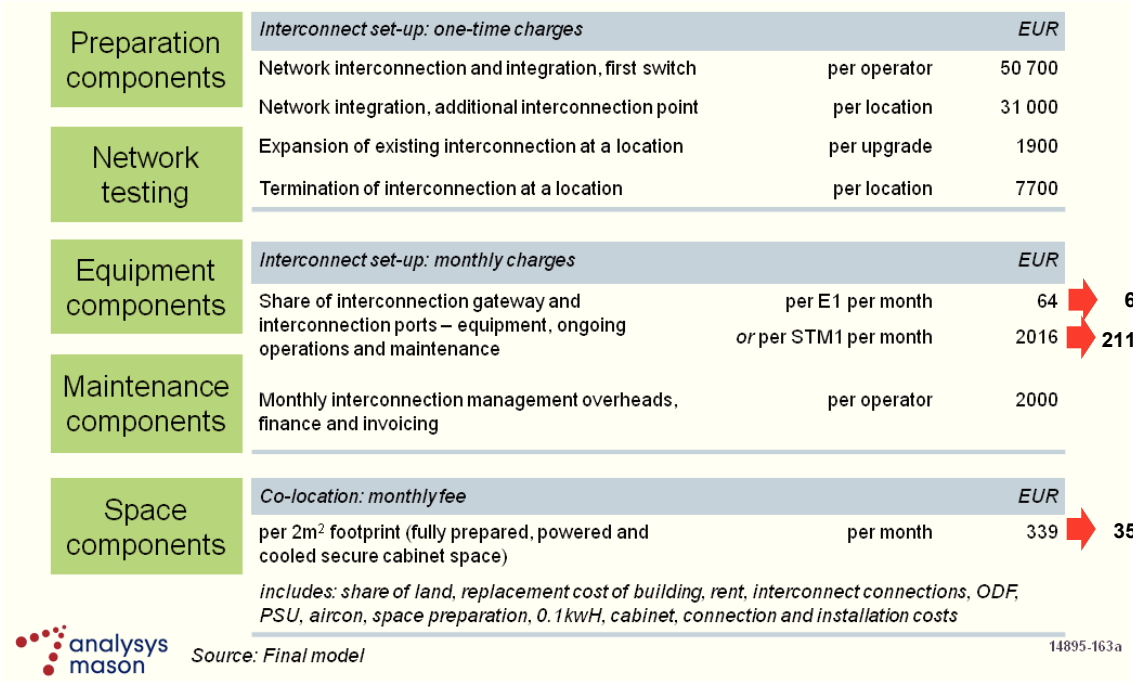

Figure 2: Plus BULRAIC physical interconnection cost components [Source: Analysys Mason]