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## **RE: FLOORS FOR FUTURE BROADBAND PRICING – NON-CONFIDENTIAL VERSION**

Dear Sean

I write further to our recent discussions on the evolution of the wholesale broadband market.

BT has formally captured, within this letter and the attached annex to this letter (“the Annex”), the output of recent discussions between BT and Ofcom regarding BT’s pricing commitments for mass-market wholesale broadband products over the next few years.

This commitment reflects BT’s need to be competitive in the wholesale broadband market, whilst recognising that emergent LLU investments require a period of stability, within which to establish a sustainable business.

BT considers aspects of the information contained in this letter and in the Annex to be commercially sensitive. It is therefore provided in confidence and should not be shared with any third party for any purpose without the prior written consent of BT (subject to any legal requirement upon Ofcom to disclose the contents of this letter). BT reserves the right to withdraw the commitments set out in this letter in the event that any confidential information is disclosed to a third party without the written consent of BT.

### **1 BT price commitment on future wholesale broadband pricing**

This letter sets out a price floor commitment as detailed in paragraph 2 and the Annex in relation to the BT IPStream service, including the BT Central service (together, “IPStream”) and the Wholesale Broadband Connect Service (“WBBC”) service which is currently planned to be launched in January 2008.

For the period, if any, between Openreach achieving an installed base of 1.5 million Local Loop Unbundling Service (“LLU”) lines (excluding lines relating to BT’s downstream services, such as IPStream or DataStream) and 30th April 2007, BT shall not implement any significant price reduction for IPStream, compared to the pricing levels that applied at the date when 1.5 million LLU lines (excluding lines relating to BT’s downstream services) were achieved.

[✂]

## 2 Price commitments

All prices and values for 'average revenue per end user' in this document exclude Value Added Tax.

### 2.1 Price floor for IPStream

For the period between 1st May 2007 and 1st July 2009 and subject to the conditions of this letter, BT will not reduce its charge for IPStream, where such reduction would have the effect of reducing the BT average revenue per end user ("ARPU"), as calculated using the reference model and assumptions set out in the Annex, below the following levels:

[X]

(NB: Such relevant exchange bands being based on the criteria set out in paragraph 4 below.)

On or before 1st May 2007, BT intends to reduce the End User Connection charge, for IPStream, from £40 to £34.86 and introduce an End User Cease charge of £33.75. BT may vary the IPStream End User Connection and Cease charges to match any relevant underlying price change from Openreach during the period of this commitment.

Subject to the conditions of this letter, the IPStream ARPUs above are an absolute minimum for the pricing of the BT IPStream service for any given exchange within the relevant exchange band and are not an average ARPU across all exchanges in a given exchange band.

### 2.2 Price floor for WBBC

For the purposes of this letter, WBBC is assumed to comprise the planned wholesale Broadband Connect ("wBBC") product, extending from the relevant end user to the associated aggregating Broadband Remote Access Server ("BRAS") plus the associated customer-sited handover components or products and excluding any IP core aggregation. At the date of this letter, BT has yet to define and offer prices for these handover components or products.

For the exchange bands and periods between 1st January 2008 to 1st July 2009 in the table above in this paragraph 2, BT will price WBBC (as defined in the previous paragraph), currently planned for launch in January 2008, such that the ARPU for WBBC, using the reference model assumptions set out in the Annex, will not be below the ARPU for IPStream, less [X].

## 3 Conditions

### 3.1 Excluded services

This commitment does not apply to:

- i) the BT Datastream Service provided by BT Wholesale as defined in the then current Conditions of BT Datastream Service; or
- ii) any SDSL services as defined in the then current BT Wholesale Conditions of BT IPStream Service or any SDSL services that may in future be provided by BT Wholesale; or

- iii) any future new BT Wholesale services that are based on a full Metallic Path Facility (“MPF”) as defined in the Conditions relating to the Openreach Local Loop Unbundling Service (“LLU”), or on any future access input, supplied by Openreach, that is to be used in a converged access product; or
- iv) any current or future service features/options or charging options of IPStream and WBBC that are value-added components, or that are downstream of a wholesale IP service Equivalence of Input (“EOI”) point, or that represent a new generation of broadband access product which is not based on a metallic connection between the end user premises and the local serving exchange; or
- v) any broadband service to the extent that (i) such service is provided by a company in the BT group (a “BT Group Company”) as a result of an acquisition by a BT Group Company of (a) shares or stock (b) a partnership interest or (c) the whole or part of the business and/or assets of another entity and/or (ii) such service is provided to customers or subscribers acquired by a BT Group Company, each following the date of this letter (“Acquired Broadband Service”).

This exclusion includes any assets comprising the Acquired Broadband Service, any new assets provided for the Acquired Broadband Service and any BT IPStream Service or WBBC Service broadband components or end users that are transferred by BT to the Acquired Broadband Service, end users transferred from the Acquired Broadband Service to BT solely as a result of an end user or reseller migration request and any new customers of the Acquired Broadband Service; or

- vi) any proposed trial pricing for WBBC prior to the launch of WBBC, up to a maximum of 350,000 end users in such trial.

In the event that BT considers it appropriate to exclude any other services from this commitment, BT will discuss this with Ofcom before implementing this.

### **3.2 Price floor amendments**

BT will keep the price floors in paragraph 2 of this letter under review. BT will take into account changes in the prices of Openreach for SMPF and EOI backhaul products (or any successor products which may be used in the provision of IPStream and WBBC) in deciding upon whether a change in the price floor is appropriate. Should BT consider that a change in the price floors is appropriate, BT shall inform Ofcom at least two months before such changes would come into effect, subject to 90-day advance publication of relevant pricing by Openreach. BT shall take into account any indications given by Ofcom in relation to the appropriate level of any price floor in considering whether, or by how much, to amend the level of the price floors.

### **3.3 Regulatory/competition law determinations**

If as a practical consequence of a decision or determination by a tribunal or regulatory authority of appropriate standing, any part of BT is required either directly or indirectly, to set or adjust the level of its prices for broadband products, then certain commitments in paragraph 2 of this letter will cease to apply, but only to the extent that BT sees this as necessary to comply with such a decision or determination.

### 3.4 Review

During the period 1st September 2008 to 31st October 2008, BT shall review, taking into account any indications from Ofcom, whether this floor commitment will be required between 1st January 2009 and 1st July 2009.

The price floor may be changed by BT if an LLU operator's share of broadband end user lines reaches or exceeds [X] of total broadband end user lines (including cable) in the geographic area matching BT's 1-1000 exchange band, this LLU operator share being achieved through organic customer growth, or otherwise. BT shall notify Ofcom of such price floor changes, with at least two months' advance notice, and shall take into account any indications from Ofcom.

In the event of an LLU operator's share of broadband end user lines reaching or exceeding [X] of total broadband end user lines (including cable) in the geographic area matching BT's 1-1000 exchange band, this LLU operator share being achieved through organic customer growth, or otherwise, BT shall also review, taking into account any indications from Ofcom, whether this floor commitment continues to be required. BT shall notify Ofcom, in writing, of any consequent decision to terminate this commitment, with at least two months' advance notice.

### 3.5 Termination

This letter and the commitments contained within it will terminate:

- (i) on 1<sup>st</sup> July 2009, or earlier if notified in writing to Ofcom with two months' advance notice and having taken into account any indications from Ofcom; or
- (ii) if there is disclosure without BT's written consent as set out in the fourth paragraph on page one of this letter.

## 4 Exchange banding

The groupings for the relevant exchange bands under the commitments given in paragraph 2 of this letter have currently been based on [X].

If BT considers that it needs to vary the number of exchanges that fall within a particular exchange band using the criteria set out above, then each of the relevant exchange band(s) set out in paragraph 2 may be varied by a maximum of [X] exchanges either way to ensure there is no conflict between existing regulation/competition law and the commitments within this letter.

Should the criteria need to change during the period of the commitment, or if a required variation of the exchange bands exceed [X] exchanges, then BT shall inform Ofcom of such change, with at least two months' advance notice. BT shall take account of any indications from Ofcom before implementing such changes.

## 5 [X]

[X]

## **6 Variation/termination**

Notwithstanding paragraphs 3 and 4, this letter may be varied and/or terminated as notified in writing by BT to Ofcom. BT shall discuss such variation or termination with Ofcom, at least two months in advance of it becoming effective and shall take into account any indications given by Ofcom, in relation to the variation or termination.

Yours sincerely

Paul Reynolds  
CEO, BT Wholesale

## ANNEX

### 1 The reference model

Pricing for BT's wholesale broadband products comprises a number of components, which are purchased in different combinations by broadband service providers, to meet their business needs. This Annex sets out the reference model by which actual IPStream prices, for a large-scale mass-market broadband service provider, will be compared to the price floors ARPUs in paragraph 2 of this letter.

The attached reference model translates the various pricing components for IPStream into a single ARPU, for the purposes of comparison. The reference ARPU for IPStream service is the sum of:

- An End-User rental charge;
- An allocated average charge for BT Central connection (including an allocated average charge for BT Central handover connection); and
- An allocated average charge for BT Central rental (including an allocated average charge for BT Central handover rental).

### 2 Reference model key assumptions

The reference model includes an End-User connection charge (£34.86, from 1st May 2007) and an End-User cessation charge (£33.75, from 1st May 2007), as set out in paragraph 2. However, these elements are not included when calculating the IPStream ARPU.

The model uses the following key input assumptions, in calculating the reference IPStream ARPU, using Capacity Based Charging ("CBC"):

- The reference End User rental charge is the IPStream Max End User rental charge, after all rebates and discounts have been applied;
- The reference BT Central connection and BT Central rental charges are the lowest charge, per unit capacity, for any CBC BT Central that BT supplies and is available for new supply at the time of calculation. At the time of writing the BT Central product, available for new supply, with the lowest charge per unit capacity is the 622 Megabit per second ("Mb/s") L2TP BT Central, using Capacity Based Charging ("CBC");
- The reference BT Central capacity will be the typical IP throughput capacity, as defined in BT's Supplier Information Notes (SINs). As an example, the typical IP throughput for the 622 Mb/s L2TP BT Central is 557 Mb/s;
- The BT Central connection charge is amortised over a period of three years with a zero cost of capital; and
- The capacity (IP throughput) per end-user, to be used in calculating the reference ARPU is 12.5 kilobit per second ("kb/s").

### 3 Floor gradients

The 'floor gradient' is the capacity charge, in pence per kb/s of IP throughput capacity as calculated using the reference model in this Annex.

The floor gradient describes the rate at which the reference model's ARPU changes as capacity per end user changes.

At the date of this letter, the floor gradient is composed of the following components of the CBC BT Central services:

- BT Central core network conveyance rental;
- BT Central handover rental; and
- BT Central handover connection.

Note that the rental charges are presented, in the BT price list, as a single rental charge.

The table below sets out the floor gradients for IPStream, for the period 1st May 2007 to 31st December 2008.

[REDACTED]

Should BT change the structure of charges for the components of the floor gradient, prior to the termination of this commitment, the aggregate floor gradient values in the table above will remain unchanged at the bandwidths and for the periods indicated. This would include, but not be limited to, changing the relative mix of charges between the three components noted in the paragraph above, or adding or removing component charges.

Between 1st September 2008 and 31st October 2008, BT shall propose to Ofcom the relevant floor gradients for the period from 1st January 2009 to 1st July 2009. BT will take into account any indications from Ofcom and, should no alternative conclusion be reached by BT during the period 1st September 2008 to 31st October 2008, the floor gradients in the table above, at 31st December 2008, will apply for the period 1st January 2009 to 1st July 2009.

For the period of this price floor commitment, the floor gradient for WBBC will be [REDACTED] lower than the floor gradients for IPStream as set out in the table above.

#### **4 BT Central Plus**

The reference model above relates to the BT Central product. The pricing gradient for the BT Central Plus product will not be more than [REDACTED] less than the pricing gradient for the BT Central product, for the period 1st May 2007 to 1st July 2009, or such earlier date as this commitment may terminate. For example, if BT were to charge [REDACTED] for BT Central (connection plus rental) then BT would not charge less than [REDACTED] for BT Central Plus (connection plus rental).

The BT Central Plus internet charge is not included in the IPStream reference model. However, BT shall not price this additional internet charge component in such a manner as to unduly disadvantage customers of the BT Central product.

#### **5 Standard Charging**

For the duration of this floor commitment, or for as long as the Standard Charging option exists for IPStream, BT shall broadly maintain the relative level between the CBC price floor and the price floor for Standard Charging.

## **6 Capacity Based Charging relative to Usage Based Charging**

For the duration of this floor commitment, or such other period as the parties may agree in writing, BT shall broadly maintain the ratio between the prices for CBC and Usage Based Charging (“UBC”), on IPStream,.

## **7 Reference model spreadsheet**

[X]