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### **Pricing: LLU and WLR core rental services**

We understand that Ofcom now expects the LLU and WLR charge control to come into force on 1 July 2014. As the current control ends on 31 March, we recognise that our customers may be concerned that there will be uncertainty over what will happen to our prices between then and when the new control starts.

We would like to help remove any such uncertainty. Accordingly, I can confirm that Openreach intends to set a price on 1 July 2014 for the core rental services (MPF, SMPF and WLR rentals represent the majority of WLR and LLU revenues), which, in combination with an appropriate rebate in August 2014, if required, will result in the weighted average price for each of these services for FY 2014/15 being the same as if the charge control had become effective on 1 April 2014.

The principle is that for these core rental services and for FY 2014/15 (the first year of the control) and the two subsequent years of the control, Openreach and CPs will be in the same overall financial position as if the control had started on 1<sup>st</sup> April 2014 rather than 1<sup>st</sup> July 2014.

It is apparent from Ofcom's consultation ranges that WLR and MPF rental prices may increase under the new charge control and that, under Ofcom's proposals, the price ceiling for these services from July 2014 to March 2015 would be set at the determined weighted average price for FY 2014/15.

Should Ofcom ultimately propose a price increase to these core rental services, and Openreach waited until 1 July to amend these prices, Openreach would not be able to increase prices above the determined ceiling in the last 9 months of 2014/15 (in order to make the weighted average price for FY 2014/15 the same as if the controls had started on 1 April). In order to avoid such a situation, it will be necessary to increase the prices for MPF and WLR rentals ahead of 1 July 2014. The price for SMPF rental will stay unchanged.

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I am therefore writing to inform you that Openreach will shortly be announcing price increases for WLR and MPF rentals to take effect 90 days after notification. We expect the effective date to be on 17 May 2014. To enable Openreach to properly recover the 2014/15 revenue relating to the final charge control outcomes, we propose to price at the top-end of Ofcom published ranges i.e. MPF rentals will increase from £83.92 to £96.37 p.a. and WLR rentals from £93.32 to £96.17. This would be an effective monthly increase from 17 May 2014 to 30 June 2014 of £1.03 for MPF rentals and £0.23 for WLR rentals.

When the new determined prices for FY 2014/15 come into force on 1 July, the combination of the determined prices along with the price increases prior to 1 July 2014 (and the unchanged SMPF rental price) may, if the determined prices are not at the top of Ofcom's range, result in customers experiencing an average price in the first three months of FY2014/15 that is higher than if the control came into effect on 1 April.

To deal with this, Openreach will commit to:

- Set prices for WLR, MPF and SMPF rentals on 1 July at the price ceiling (the determined weighted average price for FY 2014/15); and
- Rebate to customers the difference between what customers have actually paid for WLR, MPF and SMPF rental services from 1 April 2014 to 30 June 2014, compared to what they would have paid had the 1 July 2014 prices been operative from 1 April 2014. These rebates will be made in August 2014.

We will make these price changes on the basis of the expected delay to the new charge control, but if it appears likely that the conclusion of the review will stretch beyond 1 July we will make further announcements in good time.

We think this is a simple, pragmatic and fair way of dealing with the issue for all concerned.

Yours sincerely,



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