

4 August 2016

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Dear Alan,

Charges for BT Wholesale Services after the expiry of existing Wholesale Local Access and Narrowband charge controls

Thank you for your letter dated 1 August 2016, where you set out the approach that Openreach is intending to take to the charging of Wholesale Local Access and certain wholesale narrowband services from the expiry of existing controls until the next expected set of decisions on these markets ("the lacuna period").¹

We acknowledge your commitment to hold the overall baskets of charges and where relevant individual charges at the average charge level existing in the final year of the current charge controls and to apply a CPI-CPI cap to each basket or individual charge from the date of expiry of the current charge controls² to 31 December 2017³ or the commencement of any charge controls arising from the current review of the WLA and Narrowband markets (if this occurs prior to 31 December 2017).⁴

The principles underlying the approach you have taken are as follows:

- providing transparency of the charge setting structure;
- providing charge certainty to all stakeholders;
- the desire to maintain pricing stability; and
- to ensure that the arrangements cover a sufficient period of time.

¹ Specifically Wholesale Line Rental and related services, ISDN2, ISDN30 and local loop unbundling services.

² All charge controls expire on 31 March 2017

³ We acknowledge that if the review stretches beyond 31 December 2017 these arrangements could be extended by mutual agreement.

⁴ We note that Openreach will also apply a CPI-CPI cap to charges for ISDN30 connections and enhanced care services, which are currently subject to sub-caps, and to charges for ISDN2 and ISDN30 Transfer Services and ISDN30 DDI Services (Planning, Connection, Rental), which are subject to individual charge controls.

Your overall proposed approach to charging during this period is welcome and we are grateful for the efforts that BT is making to provide certainty to its customers and the wider industry during the lacuna period.

We understand that BT's proposed voluntary pricing commitments of CPI-CPI will be based on average charges in the final year, which will be compliant with the current charge controls, including BT taking any steps to ensure such compliance as is provided for in the relevant charge control (SMP) conditions. We also confirm our intention that any subsequent charge controls will be based on forward-looking costs without making any retrospective adjustments for the lacuna period, but we cannot at this stage rule out appropriate starting charge adjustments based on forward-looking revenues and costs.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jonathan Oxley'.

Jonathan Oxley