

Philip Jansen
Chief Executive
BT Centre
81 Newgate Street
London EC1A 7AJ

25 February 2020

Dear Philip,

Sharon wrote to you in May last year summarising the proposals in our March 2019 Access review remedies consultation and highlighting how our regulation would reduce the investment risk for full fibre. Since then, in January 2020, we published our full Access review proposals on which we are currently consulting. As discussed, I am happy to follow up on Sharon's letter to explain how our current consultation proposals continue this approach.

Recognising the challenges and risk around the full fibre business case, we continue to propose measures to seek to reduce the risk to Openreach in making fibre investments, while continuing to protect consumers. These measures continue to have three key features: a balanced approach to copper retirement; fair treatment of legacy copper investments; and clear "fair bet" terms.

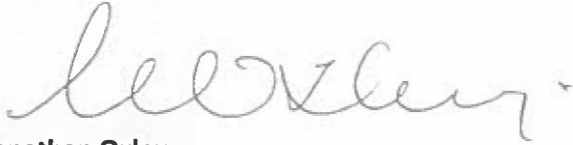
Our proposals support the migration by Openreach of customers to its new fibre network, by removing regulation on Openreach's copper products in an exchange area when fibre is built there, and transferring regulation from copper to fibre services. We are also proposing to allow Openreach to charge a premium for its 40/10 fibre service, this premium will be an uplift to the 40/10 copper price of £1.50 – £1.85 per month to reflect the additional value that fibre offers.

Our proposals provide for accelerated recovery of legacy copper investments. In Area 2 we have proposed to index the price of the 40/10 copper service and to allow pricing flexibility on higher speed services, instead of having cost orientation. The extra margin provided by this approach will allow for the accelerated recovery of the legacy copper investments. In Area 3 our proposed charge control includes the accelerated recovery of legacy copper investments. Further, if BT makes a commitment to deploy in Area 3 then we propose to adopt an indexed approach, like that in Area 2.

On the fair bet, we continue to consider that our package of proposals reduce the downside risk to Openreach in all geographic areas, a message we have conveyed to the wider investment community. We are not imposing price regulation of FTTP (where there is a copper service available), we are limiting price regulation of the copper products to the 40/10 service and proposing pricing approaches that are above accounting costs, we are proposing a Regulatory Asset based model in Area 3 to allow the recovery of BT's fibre investment in that area and we are facilitating rapid copper switch off. The application of the fair bet to FTTP should also be seen in the context of Ofcom's track record of delivering on the "fair bet" for BT's current fibre-to-the-cabinet investment, where BT enjoyed pricing flexibility for ten years and earned returns of 15%.

We also appreciate that the costs of full fibre investment will be recovered over multiple regulatory review cycles. While, as you will understand, any future decision to regulate is required to be made based on the circumstances at the time and subject to consultation, we do not envisage regulating the higher bandwidth products or a reversion to cost-based controls during the subsequent control period (from April 2026).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jonathan Oxley', written in a cursive style.

Jonathan Oxley