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Dear Jonathan

BT's Voluntary pricing commitment for Wholesale Narrowband and Broadband Access charge control lacunas

I am writing following the meeting between BT and Ofcom on 27 April at which Ofcom indicated that it expects to be late in implementing the next round of charge controls for a number of Wholesale & Ventures (BT W&V) and Openreach services.

Ofcom requested that BT W&V and Openreach each make voluntary price commitments to cover the period between the expiry of the current controls and the start of any new controls ("the lacuna period"). This letter covers BT's proposed voluntary commitments for BT W&V services.

This proposed voluntary commitment is made on the basis that Ofcom has confirmed that their current view is that the start date of these new controls would be no later than 1 January 2018, in which case the charge controls would run for three years from then until 31 December 2020. These new controls would not contain any retrospective adjustment mechanism for the lacuna period.

This proposed voluntary commitment has been designed to meet the following criteria which we have discussed with Ofcom:

- a) **Transparency** of charge setting structure;
- b) Charge **certainty** for all stakeholders;
- c) The desire to maintain **price stability**; and
- d) Ensuring that the arrangements cover a **sufficient period of time** to allow for any timetable slippage.

BT W&V is willing to make a voluntary pricing commitment on the understanding that there will be no retrospective adjustments made in the next charge control for the lacuna period. Given the criteria set out above, and in order to avoid pre-empting the outcome of the charge control consultation process, BT W&V proposes a safeguard cap until 31 December 2017 or whenever the new charge controls come into force, whichever is sooner.

In simple terms, BT W&V would be prepared to offer to hold the overall basket of prices at the average price level existing in the final year of the current charge controls. This may involve price changes at the start of the lacuna period if prices at the expiry of the charge control differ from the 12-month average price.

This implies that, on expiry, each of the narrowband and broadband charge controls will be replaced by voluntary pricing commitments of CPI-CPI until 31 December 2017. These commitments would apply to BT W&V services covered by the charge controls set out in the table below:

Charge Control	Current control	Expiry of charge control	BT W&V proposal (until 31/12/17)
<i>Voice NCC</i>			
NCC – Call Termination	RPI-3.1%	30/09/2016	CPI-CPI
NCC – Call Origination	RPI-3.6%	30/09/2016	CPI-CPI
Interconnect Circuits	RPI-RPI	30/09/2016	CPI-CPI
<i>Broadband</i>			
WBA market A – IPstream services	CPI-10.7%	31/3/2017	CPI-CPI

Sub-caps

The NCC-Call Termination and NCC- Call Origination baskets do not have sub-caps and BT's pricing commitment will apply at the overall basket level only.

The Interconnect Services Basket (ISB) comprises individual services which are subject to +10% sub-caps in the existing charge control ending 30 September 2016. We also are willing to apply a CPI-CPI cap to the individual charges in the ISB that are currently subject to a sub-cap.

For the WBA Market A – IPStream Connect Services basket currently has sub-caps of CPI-7.7% for contracted bandwidth and sub-cap of CPI-4.7% for end-user access rental and some ancillary services. Our CPI-CPI commitment relates to the overall WBA Market A – IPstream Connect Services basket only and does not extend to sub-caps for individual services.

The above proposals meet the criteria we have discussed as follows:

a) Transparency

To ensure transparency, BT W&V proposes that Ofcom publishes this letter from BT W&V to Ofcom committing to these voluntary arrangements.

b) Certainty

To ensure certainty for all stakeholders (including BT, CPs and Ofcom itself), we would ask that that Ofcom confirms in writing that these proposals are a reasonable approach for BT W&V to take. This confirmation will avoid CPs, BT W&V and Ofcom incurring unnecessary time and expense corresponding on BT W&V's compliance with any relevant regulatory obligation. It will mitigate the risk of claims from CPs alleging BT W&V's pricing does not meet its regulatory obligations.

Further, we would seek written confirmation from Ofcom that there will be no retrospective adjustments in the new controls related to the lacuna period. Together with the publication of the voluntary arrangements, this should create sufficient certainty to enable all CPs and BT W&V to plan effectively. This is especially so if Ofcom is able to publish the voluntary arrangements sufficiently in advance of the current charge control mechanisms ceasing to have effect.

c) Price stability

Maximum price levels provide stability for the market, and a stable platform from which Ofcom's charge control proposals can be evaluated.

d) Sufficient period of time

The proposals provide Ofcom with an additional 6 to 15 months to set any new charge controls (with the option of these time periods being truncated if Ofcom concludes its market review and any charge controls before then). We understand from Ofcom that this should be sufficient. If, however, this proves not to be the case, these arrangements could be extended by mutual agreement.

BT W&V's proposals also avoid pre-empting the outcome of the charge control and consultation process and provide a neutral backdrop to Ofcom's Market Reviews.

Yours sincerely



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