

Dame Melanie Dawes  
CEO  
Ofcom

26 June 2020

Dear Melanie,

As you know, we very much share Ofcom and Government's objectives that the benefits of a full fibre network should be made available to as many people as possible. We also share the objective that no area of the country should be left behind and that deployment should be as balanced as possible across urban and rural areas and all nations and regions. Alongside this rollout objective, we will continue to work with Ofcom and our customers on opportunities to underpin scale adoption of the platform at pace so that UK consumers and businesses can benefit as soon as possible from our fibre investment.

At BT's May results Philip Jansen announced a rapid acceleration in Openreach's FTTP build plans, setting out a new target to pass 20 million UK homes by the mid to late 2020s and that this would include significant build in rural areas i.e. Ofcom's Area 3. This target is subject to clarity on the longer-term regulatory framework and confirmation of the regulatory enablers set out in Ofcom's WFTMR consultation.

January's WFTMR consultation set out that the proposed Area 3 charge control could be indexed in the same way as Area 2 if Openreach commits to sufficient commercial build. I am writing to confirm that we are planning to build out commercially (i.e. without public subsidy) to at least 3.2m premises in Area 3 cumulatively by the end of 2025/26.

We understand that Ofcom will need to consult on whether such a build commitment is sufficient for it to move to a "forecast build" approach and extend indexation across the whole of the country from April 2021.

In thinking about our FTTP roll-out plan we look at the country as a whole and consider that a forecast build approach brings a further advantage of having the same regulatory remedies everywhere. Our plan makes a number of assumptions as to where Ofcom's consultation on the wider regulatory framework lands. Specifically, we assume that from April 2021 the framework will:

- (i) allow the prices for existing copper and FTTC anchor services to increase with CPI indexation each year;
- (ii) establish a new FTTP anchor at 40Mb/s only at a premium to the FTTC anchor;
- (iii) allow pricing flexibility at higher bandwidths; and
- (iv) Adjust access supply remedies to support copper retirement – e.g. allowing us to adopt stop-sell policies where FTTP has been deployed to a certain threshold.

We note that for the above items this would result in the same regulatory approach for Areas 2 and 3.

**Clive Selley**  
CEO Openreach

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This framework will support our case to invest in all areas by allowing us to:

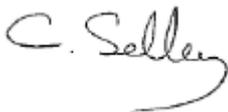
- (i) Adopt commercial policies to drive volumes to the new FTTP platform;
- (ii) Drive incremental revenue growth from sales of higher value FTTP services; and
- (iii) Maintain and operate the existing copper and FTTC assets during a period of transition before retirement.

However, our investment case needs to look well beyond the 5 years of this review and we therefore need to make assumptions about the shape of the regulatory framework after 2026. In this regard, we assume:

- (i) In intervening to regulate any access charges after 2026, Ofcom will honour the fair bet on all our FTTP investments across both Area 2 and Area 3 – i.e. it will provide us with a fair opportunity to earn and keep upside returns commensurate with the considerable risk associated with this long term, scale investment including those stemming from demand uncertainty and execution (e.g. risks around build and provisioning cost in rural areas); prices would only be reduced to forward-looking estimates of costs once Ofcom is satisfied that fair bet returns can be earned over the life of the investments being made in this period. We further assume that that Ofcom will set charge controls, if and when required, in a way that enables us to recover (efficient) costs
- (ii) clarity over the long-term regulatory approach, noting Ofcom's expectation that this approach would exist for at least two charge control periods and that our parent, BT, has said it expects to last for at least 15 years

I trust the above is all clear but please let me know if you would like to discuss further. I would be grateful to know if you intend to consult on the above.

Kind regards



Clive Selley