INCA response to Ofcom's Consultation:

Promoting competition and investment in fibre networks

Wholesale Fixed telecoms market review 2021-26

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1 Executive summary

1. INCA welcomes the opportunity to respond to Ofcom's Wholesale Fixed Telecoms Market Review (WFTMR) and thanks Ofcom for meetings and email correspondence that has helped us provide a better informed response.

2. INCA welcomes Ofcom's focus on encouraging on enabling competitive investment and removing barriers to investment and market entry, but we have strong concerns in relation to how Ofcom defines the relevant geographic markets as well as with the price regulation Ofcom proposes to impose on BT on Area 3.

1.1 Geographic markets

3. Ofcom proposed geographic market definitions are based on where it is likely for competitors to Openreach to invest in fibre networks, but it is not clear that this criterion constitutes a valid delineation of geographic areas where competitive conditions differ significantly from surrounding areas. INCA believes it does not.

4. INCA also does not believe that Ofcom's implementation of the geographic market definition is correct. This is because Ofcom does not consider which criteria are important for determining whether it is economically viable for competitors to Openreach to invest in a location. Instead Ofcom has simply collected 5-year deployment plans from a subset of altnets in the UK and determined the boundaries of Areas 2 and 3 on the basis that locations included in deployment plans are in Area 2 and all remaining areas are in Area 3.

5. INCA strongly disagrees that 5-year deployment plans from a subset of UK altnets constitute a valid basis for determining boundaries between locations that are or are not economically viable for altnet deployment.

6. INCA also disagrees that the deployments made and planned by most of its members are not material and should therefore not be considered when defining geographic markets.

7. Finally, INCA disagrees that most of its members are deploying WLA-only networks. Most already serve the leased lines needs in their coverage areas and those that don't yet plan to do so. Most altnets should therefore be classed as MSNs.

1.2 Ofcom's proposed pricing remedies

8. INCA agrees with Ofcom that price regulation has a significant impact on investment incentives. INCA further agrees that the principle of keeping pricing stable in Area 2 will constitute an investment incentive for altnets, but draws Ofcom’s attention to where its modelling underestimates deployment costs.

9. For Area 3, however, INCA fundamentally disagrees with Ofcom's overall approach to price regulation, as well as with the specific price remedies proposed by Ofcom.

10. INCA's analysis shows that the proposed "RAB approach" will not incentivise Openreach to invest in Area 3, but will instead actively deter altnet investment and also increase the margins for the retail ISPs that are not investing in new fibre infrastructure.

11. The impact of Ofcom's proposed "forecast approach" is also not likely to meet Ofcom's objectives as it will result in Openreach investing in all the most commercially viable locations in Area 3 (where altnet investment would have happened without the need for artificial incentives), resulting in a significant reduction in altnet investment and only a change in location for Openreach investments - this represents an overall reduction in both investment and full-fibre deployment over the 5-year period covered by the market review.

12. INCA welcomes Ofcom's recognition that geographic discounting, loyalty schemes and other contractual and pricing indicatives that can have an anticompetitive effect and deter altnet investment should be prevented. We disagree, however with Ofcom's exclusion of FTTP services in Area 3 from the geographic discounts restrictions and believe that Ofcom needs to tighten up its framework overall to provide more certainty and transparency.

1.3 Ofcom proposes to favour Openreach over altnets

13. INCA believes Ofcom's proposals to favour Openreach investment over altnet investment in Area 3 is in direct conflict with Ofcom's duties under the current Telecommunications Act 2003 and also with the new European Electronic Communications Code.

14. Both of these pieces of legislation/regulations require that Ofcom does not discriminate between providers of electronic communications networks and services, when performing its duties.

1.4 Ofcom's concerns relating to altnet deployment in single-network areas

15. As the WFTMR documentation does not provide any reasoning for why Ofcom clearly favours Openreach investment over altnet investment, we have engaged with Ofcom to get a better understanding of the underlying thinking.

16. Firstly, Ofcom has suggested that it has concerns that altnets may not provide ubiquitous coverage with their new full-fibre networks. INCA strongly disagrees with this position as its members, and other altnets, have a history of covering areas that Openreach would not cover despite being offered subsidies to do so. Altnets are at least as well placed to deploy a mix of commercial and subsidised network to ensure they cover all premises that can reasonably be covered. There is no evidence to suggest that Openreach would be better placed to do so, nor that it would be more disposed to do so - recent history suggests the contrary.

17. Secondly, Ofcom has also suggested that it has concerns that if only a single altnet full-fibre network is present in a location, customers there may not benefit from the same level of retail competition as if Openreach operated the single full-fibre network. This is because Openreach has an obligation to offer non-discriminatory wholesaled access to its network.

18. INCA considers that this concern is not necessarily pertinent to the period of this market review, as Openreach will not be able to retire its copper network until after 2026.

19. Nevertheless, Altnets are working together to build a common wholesale access platform, which will offer a single interface and standard wholesale services from a collection of altnets. Retail ISPs have historically been reluctant to engage with individual altnets for wholesale access, a position that has only begun to change significantly in the past 2-3 year. Our aim is that the common platform will help overcome ISP reservations in dealing with a mix of altnets. INCA would welcome Ofcom's support in this process.

20. INCA therefore does not agree that lack of wholesale access can be considered by Ofcom as a valid reason for favouring Openreach investment over altnet

investment.

21. Finally, Ofcom has expressed concerns in relation to the financial resilience of altnets and any risk of business failure causing discontinuity of service. While there have been a few isolated cases of small wireless ISPs failing in the past, INCA is not aware of this happening amongst the increasingly well-funded independent sector. Consequently we do not agree that this is a significant issue.

22. INCA and its members are, however happy to work with Ofcom to develop any measures required to address any such concerns. Ofcom can learn from other sector regulators who have already introduced measures to ensure the existence of a provider of last resort.

1.5 Ofcom's DPA remedy

23. INCA's members participate actively in industry discussions to improve the PIA product, but are deeply concerned that the remedy currently applied, and which Ofcom proposes to extend, is not sufficiently tightly defined and allows Openreach to game the process to the detriment of altnets and ultimately end users.

24. Ultimately, unless Openreach uses the same product as its customers, the PIA product will always remain inferior to Openreach's internal consumption of its passive infrastructure.

25. INCA urges Ofcom to move towards an equivalence of inputs DPA remedy and to implement short-term improvements to the existing remedy including an escalation process and more strict enforcement of the current no undue discrimination provision.

26. The current PIA product is not fit for purpose and there are many instances of Openreach making the product difficult to consume, causing delays and cost increases to altnet fibre deployments.

About INCA

27. INCA is a trade association. Its members are supporting, planning, building and operating sustainable, independent and interconnected full fibre and wireless networks that advance the economic and social development of the communities they serve and permit the provision of applications and services through open competition, innovation and diversity.

28. INCA's aims are to:

- support the development of sustainable independent networks through collaboration on the provision and procurement of products and services and adoption of common standards.
- support collaboration between members to create new, independent digital infrastructure that can be shared by operators and suppliers.
- support mutual trading between members.
- represent the interests of independent networks.
- promote the advantages and successes of independent networks.

29. INCA has more than 150 members, including: network owners, operators and managers; access and middle mile networks; public sector organisations actively promoting the development of 21st century digital infrastructure; vendors, equipment suppliers, and providers of services that support the sector.

30. Although this response focuses primarily on the conditions for building competing fibre networks, many of INCA's members build both fibre and wireless networks or wireless networks only. It is important that Ofcom does not focus only on the benefits of fibre networks and effectively ignore the benefits of very high speed and high quality fixed wireless networks.

2 Introduction and background

31. Ofcom's Wholesale Fixed telecoms Market Review (WFTMR) covers several fixed telecoms markets and combines their review in an effort to ensure consistency in regulation across fixed telecoms and to ensure that barriers to investment in new fibre networks are removed or reduced as much as possible.

32. Ofcom expresses the objective of the WFTMR as: "*creating the conditions to transform the business case for investment in full-fibre broadband through how we regulate BT*". INCA welcomes this objective and will explain in this response how its members are actively investing in full-fibre broadband networks throughout the UK.

33. In this response, INCA provides responses to a subset of Ofcom's proposals, with a particular focus on the wholesale local access (WLA), business connectivity (BC), and physical infrastructure (PI) markets and on Ofcom's proposals for remedies in Area 3.

34. The fact that we do not respond to all of Ofcom's proposals should not be taken as agreement by INCA to Ofcom's proposals, it is simply a reflection of our limited resources and resulting need to focus our response to where our members feel the largest impact.

3 Geographic markets

3.1 Ofcom's approach to geographic market definitions in WLA and BC markets

35. To determine whether there are separate sub-national geographic markets in the WLA and the BC, Ofcom has decided to analyse the presence of what it describes as multi service networks (MSNs), meaning networks serving both the WLA and the BC markets. The purpose for this approach is to streamline the geographic market definitions as much as possible.

36. After the MSN analysis Ofcom then considers the presence of WLA-only and BC-only networks to determine whether there is reason to adjust the respective geographic market definitions determined using MSN presence.

37. In principle, INCA agrees with this approach. However, INCA does not agree with Ofcom's proposed geographic market definitions. In particular, INCA does not agree that there is a strong economic rationale to distinguish between Areas 2 and 3, as there is presently commercial investment happening and planned across both of those.

38. Ofcom expresses its definition of Area 2 as "*where there is already some material commercial deployment by rival networks to Openreach or where this could be economic*" and Area 3 as "*where there is unlikely to be material commercial deployment by rival networks to Openreach*". INCA does not consider that the distinction above complies with the globally accepted European Commission (EC) Guidelines for SMP analysis, which require that geographic markets are defined as "*an area in which the undertakings concerned are involved in the supply and demand of the relevant products or services, in which the conditions of competition are sufficiently homogeneous, and which can be distinguished from neighbouring areas in which the prevailing conditions of competition are significantly different*."

39. It appears that the market definitions rely extensively on Ofcom's definition of '*material commercial deployment*' by rival networks to Openreach. Ofcom offers no definition of what it considers to be material deployment and what is not.

40. INCA does not believe that Ofcom's assessment of the materiality of prospective investment constitutes a parameter that will cause the creation of areas where conditions of competition which can be distinguished from neighbouring areas in which the prevailing conditions of competition are significantly different.

41. We discuss later in this response our view on Ofcom's specific way of implementing its proposed Area 2 definition, here we simply note that we do not believe that an assessment of materiality of likely investment in an area is sufficient to constitute ",_[an area] *in which the conditions of competition are sufficiently homogeneous, and which can be distinguished from neighbouring areas in which the prevailing conditions of competition are significantly different*. Thus, it does not constitute a separate and distinct geographic market.

42. INCA does not understand Ofcom's rationale that the presence of an MSN in a location makes the WLA market "significantly different" from the presence of an WLA-only network. Nor does INCA agree that the difference between whether there is one or two fibre networks in a location will necessarily have a significant impact on the competition in that market.

43. It is internationally recognised that the minimum number of players in a market for it to become effectively competitive is three, but Ofcom is distinguishing between locations that may support either one or two fibre networks. Where the level of competition is important is at the retail level, not necessarily at the infrastructure level. A single infrastructure can support an equally competitive retail market as two or three infrastructures.

44. Further, Ofcom does not appear to perform any specific analysis to identify locations that qualify within its Area 3 definition. Area 3 is simply made up of locations that do not qualify under Ofcom's Area 2 implementation approach.

45. We describe below that, had Ofcom attempted to justify why locations it currently proposes to include in Area 3 should not be in Area 2, it would have found it very difficult to justify that those locations do not have the prospect of material investment by altnets, which would otherwise have resulted in them being included in Area 2.

46. We note, in particular, that Ofcom offers no insight into its definition of 'material' deployment. Given the very different remedies proposed for Areas 2 and 3 and their likely impact on both investors and consumers, we believe Ofcom has a duty to be more transparent on this front to allow stakeholders to comment with full knowledge of Ofcom's market definition criteria.

47. In summary, therefore, INCA disagrees strongly with Ofcom's approach to defining geographic markets for the WLA and BC products. It is our view that

Ofcom's approach will cause significant economic harm in the form of reduced commercial investment in full-fibre networks and delays to full-fibre deployment and the significant and recognised economic benefits of such networks.

48. Further, Ofcom's proposals appear to be at odds with Ofcom's own stated objective, that is "*creating the conditions to transform the business case for investment in full-fibre broadband through how we regulate BT*" as well as with the Government's Outside-In initiative, which encourages a plurality of operators and investors to participate and benefit from Government subsidies to deploy full-fibre networks as fast as possible to as much as the country as possible.

3.2 Defining Area 2 for the WLA

49. Area 2 is intended to include locations where there is existing material full-fibre deployment by altnets, plans for such deployment, <u>and where such deployment may be economic</u>. Instead, Ofcom has not considered the economic viability and instead, has simply used the existing deployment data and altnet deployment plans for the 2021-26 period to select the locations to include in Area 2.

50. It is clear that a list of target deployment areas for the relevant 5-year period does not constitute an assessment of where deployment of full-fibre networks may be economic. In fact, it does not even represent where altnets will deploy during that period.

51. Any network provider with experience in network deployment will confirm that a 5-year deployment is at best an educated guess of where the provider will deploy. Such lists are generated based on high-level assessment of the likely commercial value, existing service provision and deployment costs of locations across the country. There will be many other locations that also comply with those criteria but which, for sometimes relatively random reasons, do not make the list. In many instances it is simply a matter of selecting the number of locations to make up the intended number of premises for deployment, with full knowledge that the list will change over time. In any event, such a list will only ever be a subset of what is economically viable.

52. Ofcom recognises that operator deployment plans may change, but appears to be of the view that the change would only be to reduce the number of locations

where altnets will deploy[1], rather than adding locations to the list and/or swapping locations on the list for locations not on the list.

53. In its consultation in February 2019, Ofcom proposed a set of criteria for determining where commercial deployment by altnets would be economically viable. INCA, along with many other stakeholders, presented information and analysis to assist Ofcom with that process. It was, therefore, a big disappointment to find that Ofcom has simply abandoned that analysis – choosing to just rely on deployment lists provided by altnets.

54. Had altnets known that their deployment lists would be the only input into Ofcom's Area 2 definition, we are certain that many would have applied serious caveats to those submissions and likely also submitted a large number of locations that are considered equivalent to those on the deployment lists and that may in fact replace locations on the list submitted. The result of this, will be that Ofcom will be reducing economic viability of locations by including them in Area 3, rather than in Area 2.

3.2.1 MSN coverage threshold

55. Ofcom proposes to include in Area 2 postcode sectors where altnets currently or plan to deploy full-fibre MSNs reaching 50% or more of the premises.

56. We understand that Ofcom considers that this relatively low threshold is an effort to ensure that locations that may be economically viable are included, but we find this measure to be random and inappropriate for that purpose.

57. INCA agrees that it is appropriate to include postcode sectors with 50% or more altnet full-fibre network coverage in Area 2, but not that setting this threshold in some way makes up for not undertaking a fact-based and transparent assessment of where altnet deployment of full-fibre network may be viable.

58. The reason we agree with the 50% threshold is that Ofcom has asked for plans up to 2026 only. It is likely that, as a second wave, altnets will extend their initial networks to cover additional adjacent locations and this would take altnet network coverage up to much higher percentages.

[1] V1 para 7.31.

59. Further, we understand that the impact of lowering the threshold from 65% to 50% results in only a limited increase in postcode sectors included in Area 2[2].

60. The consequence of Ofcom's approach is that we now have a nearly random set of locations included in Area 2. But, even more importantly, a large number of locations, with the same or very similar economic characteristics as those in Area 2, are now included in Area 3 where Ofcom encourages only Openreach investment. Ofcom's proposed price regulation in Area 3 will render some locations non-viable, despite them being viable today.

3.2.2 Recognising WLA-only networks

61. As mentioned above, Ofcom defines geographic markets in two stages. First it reviews existence and plans for MSNs, then it considers the existence of and plans for WLA-only networks. In this context, it is important to recognise that, for the WLAM, the market definition refers to full-fibre broadband networks, not to full-fibre MSNs.

62. Additionally, it is important to understand that some networks that may appear to fall into the WLA-only category are in fact intended as MSNs. Only, the locations in which they are deployed have a very low demand for BC services and the providers therefore focus on the WLAM initially with plans to address the BCM later once their coverage has increased. Many INCA members have confirmed to INCA that they can and will serve the BCM, but that they must focus on the WLAM initially as that is where the majority of demand lies outside major towns and cities.

63. Although the volume of leased lines required in small towns, villages and rural areas, this does not mean that those connections are less important to the local economies. altnet design bespoke business connectivity services to business in their coverage areas, thus significantly supporting the local economies in ways that Openreach simply cannot do due to its scale and need to standardise its products.

64. It should also be noted that some altnets focus on businesses as their primary target, offering both business broadband services and leased lines services.

[2] V2 footnote 230.W

65. Ofcom recognises only Virgin media, CityFibre and FibreNation as MSNs with material existing and planned deployments for the relevant period[3].

66. Ofcom does acknowledge that some networks it currently considers to be WLA-only may start providing BC services before April 2021, in which case it would "Need to consider updating the MSNs included in our analysis". INCA considers that Ofcom should consult all providers of what Ofcom classifies as WLA-only to understand whether they currently supply or plan to supply BC services. Drawing an arbitrary line at providers that happen to have provided BC services before April 2021, when many would likely start BC services provision during the 2021-26 period, is inconsistent with the forward-looking nature of the market review. This is made worse by Ofcom not having sought information from many altnets, so Ofcom is in fact guessing that they do not supply BC services.

67. Ofcom states that it has "followed the same analytical steps as our MSN analysis described above to assess existing and planned coverage of broadband only network in each postcode sector", but it has become clear that many INCA members, did not receive requests to submit their deployment plans. It is thus difficult to see how that analysis could have been performed. See also para 7.62 which claims to have examined expansion plans.

68. Table 7.4 presents what INCA believes to be incorrect data relating to altnet deployments in Area 3 postcode sectors. Had Ofcom sought inputs from all or most INCA members, this analysis would have looked different. INCA reiterates its offer to Ofcom to help coordinate communications with its members to assist Ofcom and ensure it makes decisions based on the full facts. Further, this table covers existing deployments only – not planned deployments, it is therefore difficult to see how it can have informed Ofcom's forward-looking analyses.

69. Ofcom concludes that no WLA-only networks in the UK are <u>sufficiently material</u> to warrant inclusion in the WLA Area 2 market, nor do any WLA-only network deployment plans warrant inclusion in the list of locations that make up Area 2.

70. Ofcom refers to the fact that some of Gigaclear's networks are built based on state aid funding[4], but does not explain why that makes the deployment less valuable or legitimate for consideration in the analysis. INCA is aware that parts of Openreach's deployments are also based on state aid funding, but that does not appear to have caused Ofcom to consider Openreach unsuitable for consideration

[3]WFTMR V1 para 7.20
[4] V1 para 7.63 b)

in the analyses.

71. Further, Ofcom notes that Gigaclear targets areas where it is unlikely to face competition from other networks, including BT. Once again, it is not clear why this constitutes a reason for not including the Gigaclear deployments in the WLA Area 2 market.

72. The overriding purpose of the WFTMR is to incentivise investment in full-fibre networks. In some locations only one full-fibre network is viable, but if the regulation incentivises providers like Gigaclear, Airband, Truespeed, County Broadband or Jurassic to invest in those areas, why does Ofcom not consider this to be a good outcome? Why does Ofcom openly favour Openreach investment over altnet investment?

73. It would seem that Ofcom has 'reserved' locations where only the one full-fibre network viable is one deployed and operated by Openreach. Ofcom does not explain why that is the case. As set out earlier in this response, INCA does not agree that the existence of a 2nd full-fibre network would cause a significant change to downstream competition.

74. INCA is concerned that Ofcom is at risk of creating market distortion through favouring one party over others, INCA considers that this would be in conflict with Ofcom's overall duties.[5]

3.3 Defining Area 2 for the BCM

75. Ofcom uses the same approach for the BCM as described above for the WLAM. That is:
- it starts with assessing existence and plans for MSNs
- does not assess where deployment may be viable
- then reviews BC-only networks presence and plans

76. Although similar concerns as those expressed in relation to the WLAM exist for the BCM, they are of less relevance to most of INCA's members, as most start with addressing the WLAM and then later add on BC services. This is particularly the case for altnets in small towns, villages and rural locations.

77. Ofcom concludes that, in addition to Areas 2 and 3, two additional geographic markets exist in the BCM, namely the Central London Area (CLA) and High

[5] INCA considers that Ofcom's Area 3 price remedy proposals would put Ofcom in breach of The Communications Act 2003 3. (6) and the EECC 3.4.(b).

network Reach (HNR) areas.

78. The key concern in this respect is the approach Ofcom has taken to the definition of the HNR areas. Here, Ofcom proposes that where 65% or more of leased lines customers have access to Openreach and two altnets, the competition is established to the extent that price regulation can be removed.

79. INCA responded in some detail to the last BCMR consultation where the same criterion was proposed and subsequently implemented in July 2019. INCA refers Ofcom to its earlier response as to the risks associated with the absence of price regulation in areas where competition is still not established and thus particularly vulnerable.

4 Ofcom’s concerns for altnet-only single-network locations

80. Ofcom’s proposed remedies for Areas 2 and 3 clearly set out to incentivise altnet investment in Area 2 and Openreach-only investment in Area 3[6]. INCA has enquired with Ofcom why it does not consider that it is worthwhile maintaining altnet investment incentives across the UK at this time, including in areas where only one full-fibre network is viable.

81. In response Ofcom has outlined some issues that it considers significant in relation to its primary duty of protecting consumer interests. They are:
    - lack of ubiquity in altnet deployments,
    - no guaranteed wholesale access to altnet networks, and
    - service continuity risks.

    We discuss each below.

4.1 Lack of ubiquity in altnet deployments

82. Ofcom has expressed concern that, in areas where only a single full-fibre network is likely to be viable, altnets may only deploy networks in some locations, leaving other locations unserved by a full-fibre network. Ofcom considers it would not be reasonable to expect Openreach to then only ‘fill in the gaps’ and deploy in the least commercially viable locations.

83. INCA understands that Ofcom’s primary duty is to safeguard consumer interests, and as such must seek solutions that serve as many consumers as possible. It is clear, however, that tens of thousands of consumers in small towns villages and rural areas would today be without even tolerable broadband connections, if not for altnet network deployments. These are locations where Openreach was unwilling to invest, but where altnets have invested. In other words, they have been filling in the gaps deemed commercially unviable by Openreach. It is a fact that many altnets have built their commercial businesses on the back of lack of investment by Openreach.

84. Further, the locations that altnets cannot reach with commercial deployments are likely to be subject to Government funding schemes, including the Outside-In programme. The reason for such schemes is that neither Openreach nor altnets can deploy commercially everywhere. There is no reason why ubiquity cannot be achieved equally by giving altnets access to the same Government funding as Openreach.

[6] We discuss the proposed remedies in section 5 below.

85. Going by experience, it could be expected that altnets that specialise in serving small towns, villages and rural locations will be more ready to deploy quickly than would Openreach, which would naturally focus its resources at the most commercially attractive locations.

86. INCA's members and other altnets are participating in existing schemes, including the LFFN and the Rural Gigabit Connectivity Programme voucher schemes and are actively participating in the Government Outside-In discussions and are ready to submit tenders for funds to extend the reach of existing networks into non-commercial locations, and to deploy in new areas that are a mixture of commercially viable and non-viable locations.

87. This is in line with DCMS policy to seek competitive bids for procurements under the programme which, in itself, challenges assumptions about the non-competitive nature of Area 3. DCMS indicates that Outside-In funding will be deployed in approximately 20% of the country, which, by definition, equates to a large part of Area 3. There would be little point in competitive providers bidding for state-aid funded contracts in areas where Openreach is being incentivised to build through regulatory measures.

88. INCA strongly refutes that lack of network ubiquity is a valid reason for Ofcom to consider altnets unsuitable for full-fibre network deployment in single network locations.

4.2 Lack of wholesale access

89. INCA understands that it is important that consumers have choice. Where only a single fibre network is viable. It will however be some time before any new fibre network will be the only network, as the Openreach exciting near-ubiquitous FTTC network cannot be switched off until after 2026 at the earliest. There will therefore be consumer choice on the FTTC network during that period.

90.

We do, however, understand that it will become necessary that fibre networks in single-network areas become open for wholesale access on reasonable terms and conditions. Indeed, where Government subsidies are used for fibre deployment, there is an inherent wholesale obligation built into that framework.

91. Additionally, altnets have an incentive to attract retail ISPs to their networks, and, consequently, INCA and its members are working on the development of a wholesale aggregation platform through which retail ISPs can access standardised

services on reasonable terms.

92. The common altnet wholesale platform is currently at its feasibility stage, during which we will engage with Ofcom and ISPs as well as participating altnets to ensure that the functionality, interfaces and services meet demand and can be commercially and technically supported by the altnets.

93. We are working with potential suppliers of the common altnet wholesale platform and are exploring whether it could feasibly become a bolt-on module to the gaining provider led (GPL) switching platform. We believe that doing so could overcome a number of barriers to adoption and potentially reduce the costs of development as well. Naturally, the wholesale platform would need to be financed separately from the GPL switching platform. INCA has invited the OTA to observe and contribute to meetings and discussions.

94. There are numerous small provider single network areas across the UK, an aggregation platform would consolidate these networks into a single large network for wholesale access purposes. We are confident that, with the support of Ofcom and retail ISPs, a solution will be developed that addresses any concerns Ofcom may have in relation to a realistic wholesale access solution that ensures consumer choice in locations where only altnet full-fibre networks are deployed.

95. Working with retail ISPs is very important and we would welcome Ofcom's support in ensuring support and buy-In from the larger retail ISPs. Historically, they have shown reluctance to engage with altnets for wholesale access, but we hope that some of their reservations will be overcome by presenting a common platform that will ensure that ISPs can access large number of premises.

96. INCA's members also expect that industry consolidation will happen, perhaps starting during the review period. We believe that the creation of a wholesale aggregation platform will help to facilitate future consolidation.

4.3 Service continuity – provider of last resort

97. Ofcom has mentioned to us that it has concerns that smaller altnets may be less financially resilient than larger ones and that, should a small altnet in a single-network area cease trading, consumers connected to that network could be without service for some time.

98. INCA does not agree that this is a significant issue. We are not aware of instances where fibre or cable companies have ceased trading and left customers without

connectivity. Over the 1990s and early 2000s, there was extensive consolidation in the cable industry, but no customers were left without service, as a consequence.

99. Altnets are backed by large investors, this will help guard against insolvency and also help ensure that the value of the network (e.g. customer connections) are safeguarded during a potential take-over or consolidation process.

100. In other industries, including electricity, regulators have imposed provider of last resort provisions and obligations. If Ofcom has significant concerns in this regard then altnets will be pleased to work with Ofcom to identify appropriate and proportionate solutions.

101. INCA does not accept that concerns in relation to risk of continuity of service is a valid reason for Ofcom to favour Openreach investment in Area 3.

102. If Ofcom has severe concerns then It may wish to consider Imposing provider of last resort obligations. There Is precedent for this In other regulated sectors, including electricity.

103. INCA would welcome the opportunity to discuss these issues with Ofcom, so that any solution developed meets with Ofcom's expectations. We are confident that this is an issue that can be overcome.

4.4 Assessment of Ofcom's concerns

104. INCA understands Ofcom's concerns and has given them serious consideration. In several instances, the concerns cover subjects that have already been identified by INCA and its members and which are already being addressed.

105. It is important to recognise that it will be some time before Openreach can retire its copper network. In fact, Ofcom states explicitly in the WFTMR that this will not happen during the 2021-26 period.

106. This means that the issues identified by Ofcom do not need to have final solutions defined and implemented in advance of April 2021. Ofcom will wish to have confidence that solutions can and will be implemented in good time and as quickly as possible to ensure that as many consumers as possible can benefit from full fibre networks.

107. INCA and its members look forward to working with Ofcom in the coming months to agree criteria and measures to give Ofcom that confidence. With those

key issues addressed, Ofcom can revise its approach in the WFTMR to ensure that investment incentives are evenly addressing altnets and Openreach nationally and that no locations are reserved for either.

5 Price remedies

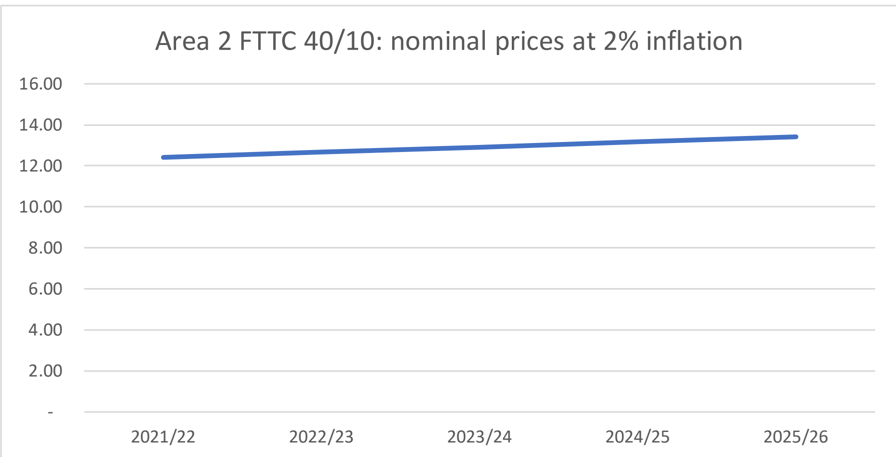
108. INCA welcomes Ofcom's overall objective of designing price regulation to preserve and generate investment incentives for full-fibre networks to be deployed across the UK in the shortest time feasible.

109. INCA agrees with Ofcom that setting regulated wholesale charges for Openreach at a level that leaves 'headroom', with the explicit objective of incentivising investment in full-fibre networks, will result in increased confidence from the investment community. INCA and its members have regular interactions with representatives from investment organisations and we have received generally positive feedback from them in relation to Ofcom's overall approach and firm objective of attracting commercial investment to UK full-fibre deployment.

110. INCA also agrees that allowing headroom in the regulated wholesale prices imposed on Openreach will have a direct impact on the assessment of individual investment projects. A 5-year charge control that does not further reduce Openreach's prices gives a level of certainty for the initial most vulnerable period of investment that will assist in approval of individual investments and speed up overall deployment across the country.

5.1 WLA Price remedies for Area 2

111. Ofcom's proposed price control for Area 2, at CPI-0%, results in increasing prices over the review period:



112. As explained in our analysis of Ofcom’s fibre cost model, we believe that Ofcom is likely to have significantly underestimated the REO scenario costs. We estimate that, with the adjustments required to more accurately reflect REO costs, the range of REO high and low, will most likely shift to the extent that the lower cost will be close to the charge resulting from Ofcom’s proposed CPI-0 charge control, with the higher cost estimate significantly above that level.

113. In particular, the costs are sensitive to the following assumptions:
- Level of coverage (in Ofcom's scenarios this is set to 3.5m PP)
- Amount of duct re-usage
- Ratio of underground to overhead infrastructure
- The WACC

114. As an illustration, the following table shows the cumulative impact of making relatively small adjustments to Ofcom's assumptions in the REO Low scenario, which results in the £8.50 lower bound for the range. Changing these assumptions results in an increase of this lower bound to £12.20, which is close to Ofcom's higher bound.

	Price (£/month)	Impact
Ofcom Base Case	8.5	
Coverage set to 8m PP	9.1	0.6
Segment 3 reusage reduced	10.4	1.3
UG ratio set to high	11.2	0.8
WACC +1%	12.2	1

115. The rationale for these adjustments is:

- Coverage: Ofcom's scenarios assume a coverage of 3.5m premises passed in Area 2, yet it is clear that altnets alone are expected to build to more than 8m premises. 8m premises reflects a conservative minimum assumption.
- Segment 3 duct re-usage: Ofcom assumes this to be "Medium" in the REO Low scenario, which corresponds to an average % re-usage for Area 2 of around 80%. Given the uncertainty around duct re-use, we believe that "Low" would be a more appropriate assumption (corresponding to around 60% re-use).
- Underground/Overhead ratio: this is set to "Medium" in both the REO Low and REO High cases. This ratio could vary significantly between areas targeted by different altnets, and so we have adjusted this assumption to reflect greater underground usage.

- WACC: the "Other UK Telecoms" WACC used by Ofcom does not reflect the risk profile of FTTP deployed by new entrants, so we have adjusted this upwards by 100 basis points (which we believe still reflects a low assumption for altnets).

116. This means that only altnets that can achieve 40% penetration or above and that can extensively use PIA as part of their build can viably deploy new full-fibre networks under the proposed charge control.

117. INCA understands that it is difficult for Ofcom to implement an actual price increase, but believes that a single starting adjustment of 5% would make a significant difference to the viability of a large proportion of altnet deployments.

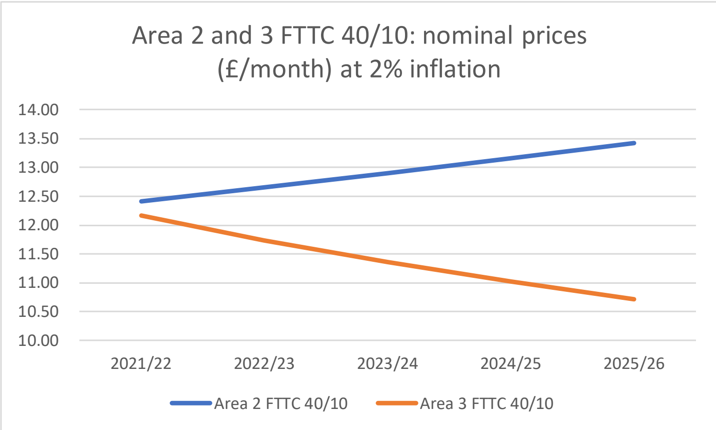
5.2 WLA Price remedies for Area 3

118. In Area 3, Ofcom is setting out two possible options for price regulation:

- Either, Openreach makes no binding commitments to full-fibre investment in Area 3, in which case Ofcom will apply a regulated asset base (RAB) approach through a CPI-X+K charge control (the RAB approach), or
- Openreach will make a binding commitment to investment in full-fibre networks in Area 3, in which case Ofcom will apply a straight CPI-X charge control that will reflect the level of investment commitment by Openreach. (the forecast approach).

5.2.1 The RAB approach

119. The RAB approach will reduce the FTTC 40/10 price by applying a CPI-5% - CPI-15% control to the GEA element of that service. This will cause a gradual reduction to Openreach's cost base over the 5-year period. The chart below shows the impact of this on Area 3 prices in the absence of FTTP investment, using the mid-point of Ofcom's range of X values:

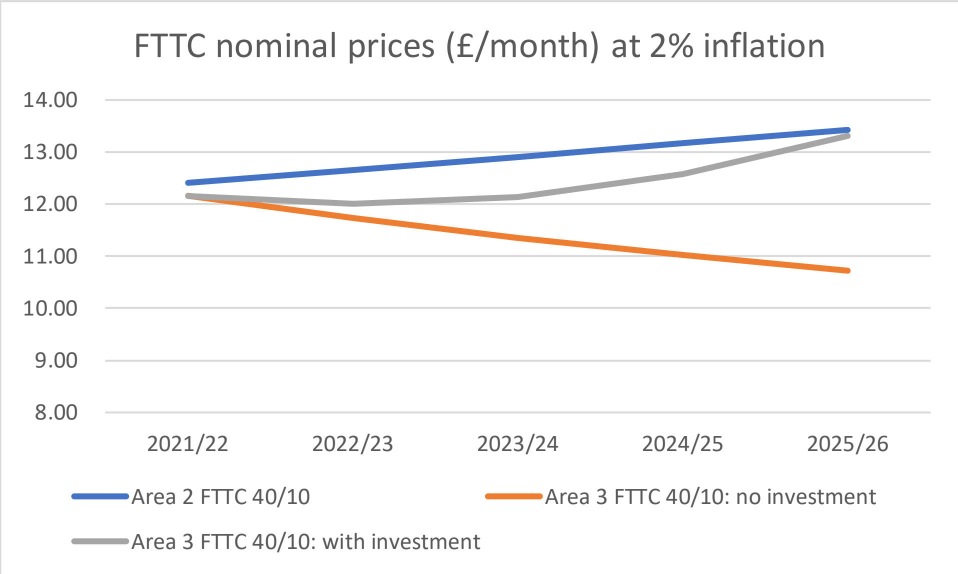


120. It will also allow Openreach to recover any full-fibre investments it makes[7] across all services in Area 3, including FTTC services. This will be the 'K' factor in the CPI-X+K control. On an annual basis, Ofcom will adjust the charge control to reflect fibre investment made by Openreach in the previous year. That should then result in either a slower reduction of the resulting price or an increase of the price – depending on the level of investment by Openreach.

121. The level of Openreach investment that can qualify to be counted against the K-value is limited by how much of Area 3 is subject to Government subsidies, as Ofcom has stated on a number of occasions that it will not count subsidised fibre investment towards the K-value.

122. Where Openreach invests in FTTP, Ofcom's RAB approach would result in prices somewhere between the Area 2 and Area 3 (no investment) cases. The example below shows the prices with Openreach building 800k lines per year over the review period, 4m total, assuming k-factors in the middle of Ofcom's range.

[7] Except where Openreach overbuilds altnets or where Openreach is in receipt of state aid for the deployment.



123. The RAB approach, with Openreach building FTTP to 4m premises, would result in Openreach prices in Area 3 being lower than those in Area 2 during the entire 5-year period, only catching up at the end of that period.

124. We understand Ofcom's rationale for the RAB approach to be a combination of a carrot and a stick. The stick is the CPI-X control on the FTTC 40/10 service, the carrot is the K factor.

125. Considering the investment incentives on Openreach to invest under the RAB approach, we estimate that to reach the same wholesale price in Area 3 at the end of the charge control as in Area 2 at that time, Openreach would need to invest in coverage of 4m FTTP lines in Area 3.

126. To put that into context, Openreach would lose around £300m in external revenues if it were to not make any fibre investment in Area 3 over the 5-year period, compared to Area 2 (flat real) pricing. That is a temporary revenue loss, not a loss of customers or market share.

127. In Area 2, however, Openreach faces a much higher risk of losing customers and market share, unless it deploys fibre every quickly. the consequence of not investing in Area 2 would thus be much higher and more permanent in nature as it is less likely that customers will churn off a fibre network once they are connected to it.

128. Based on the above high-level analysis, we do not believe that the RAB approach provides sufficiently strong investment incentives on Openreach to

cause it to divert investment capital and deployment resource from the more competitive and profitable Area 2 locations.

129. This is especially the case as the reduction in Openreach 40/10 FTTC pricing is likely to have unintended consequences, including:

- Either the retail ISPs pass on the savings in the wholesale price to their retail customers, which will make the business case for altnet investment in Area 3 even harder as altnets would have to compete against a reduced 40/10FTTC retail price, or

- The retail ISPs do not pass on their wholesale savings, but simply benefit from the increased margin. That would make those retail ISPs less likely to consider consuming altnet wholesale FTTP services from altnets, as they have a financial incentive for their customers to remain on the more profitable FTTC service. Please note that this scenario would also serve Openreach well, as it would tie retail ISPs more closely to Openreach and thus reduce the likelihood of successful FTTP deployment in Area 3 by altnets.

130. In summary, INCA believes that the RAB approach is not likely to provide sufficient incentive for Openreach to invest in Area 3, but it will provide increased profits to retail ISPs and deter altnet investment in Area 3

131. INCA members are planning significant investment in Area 3, much of which could be lost if the RAB approach were to be implemented. We refer Ofcom to the recently published Point Topic report on planned and current altnet deployments up to end 2025[8]. A substantial part of the planned deployments is in what Ofcom currently classifies as Area 3.

132. The Point Topic report is based on a survey of INCA members[9]. Those who responded estimated that altnets will deploy new super-fast or ultra-fast networks (with the vast majority being ultra-fast) to more than 15m premises by the end of 2025, with some limited overlap of those networks. Many INCA members focus entirely on Area 3, so, whilst some larger altnets straddle Areas 2 and 3, a significant portion of the deployments reported to Point Topic will be in Area 3.

[8] https://www.inca.coop/news/altnet-full-fibre-growth

[9] It should be noted that not all INCA members responded to the survey and of those that responded, they did not all respond to all questions asked. This means that the data presented on different parameters may not be easily comparable or extrapolated.

5.2.2 The forecast approach

133. If Openreach makes binding commitments to invest in Area 3, the downward pressure on the 40/10 FTTC pricing will be alleviated or perhaps removed. It would, however result in Openreach deploying full-fibre in all the most commercially attractive parts of Area 3, significantly increasing the risk that altnets would be overbuilt in areas where it is unlikely that two full-fibre networks are sustainable.

134. Openreach has a significant existing customer base to migrate across to its fibre network (including its downstream retail ISPs that form part of BT group and large retail ISPs that currently use the Openreach FTTC wholesale services). That means that overbuild by Openreach would increase the risk for altnets deploying in Area 3 substantially. The forecast approach may in fact prove higher risk to altnets than the RAB approach.

As INCA is aware of plans by altnets to deploy full fibre to around 4m premises in Area 3, we do not believe that Openreach investment under the forecast approach would deliver superior economic benefits to that.

5.2.3 Impact assessment

135. INCA considers that both the RAB and the forecast approach overtly favour Openreach to deploy in Area 3. This is inconsistent with the Government's clear policy of supporting a plurality of investors and providers of full-fibre networks and, importantly, appears to be in direct conflict with Ofcom duties to impose neutral regulations to protect consumer interests.

136. INCA does not understand how the removal of commercial altnet investment in Area 3 could possibly be in the interests of consumers and citizens, especially as it is clear that consumers and citizens in those locations have traditionally been poorly served and neglected by Openreach in favour of its priority to protect higher revenue, competitively threatened markets. Removing any competitive threat from Area 3 will only serve to reduce any existing incentives Openreach has to invest in Area 3. It certainly will not strengthen Openreach's investment incentives in Area 3.

5.3 BC price remedies

5.3.1 Active services

137. Ofcom proposes to apply a CPI-0% charge control to a broad basket of active leased line services in Areas 2 and 3. While the focus of many INCA members is initially more on broadband services than business connectivity (the target areas often contain only a small number of businesses using leased lines), the economies of scope than arise from the provision of leased line services over shared fibre networks result in benefits to both consumers and businesses. It is therefore likely that INCA members will wish to offer business connectivity services in areas of material demand.

138. INCA notes that, following the previous BC charge controls, BT's 2018-19 RFS showed that regulated ethernet prices were below cost; this presents a significant disincentive for altnet investment in this market. INCA also notes that, if business connectivity services are priced below cost, this represents a cross subsidy whereby WLA consumers are subsidising business services. This situation would clearly be inappropriate, and INCA strongly believes that, whatever charge control is applied, the prices must as a minimum be set to a level to cover BT's costs.

139. Ofcom's decision to use a broad basket for active leased line pricing, covering all ethernet speeds and optical services, may allow significant scope for BT to engage in opportunistic pricing in order to deter competition. INCA recommends that Ofcom should carry out further work to analyse this before finalising the charge control design.

5.3.2 Passive services

140. INCA notes that the availability of cost-based Dark Fibre Access (DFA) in Area 3 would cannibalise the active leased line market in these areas, and would completely deter altnet investment in business connectivity services. As noted in our comments above on active services, this would also reduce the available economies of scope with the WLA market, and provide a further disincentive to investment in fibre networks by altnets.

141. INCA does not believe that DFA should be mandated in Area 3 at the present time. If Ofcom does go ahead with this proposal, then the pricing for DFA should be set at a level which allows efficient entry by altnet providers.

5.4 Preventing anticompetitive pricing

142. INCA and its members are deeply concerned that Openreach has strong incentives to engage in anticompetitive behaviour. Ofcom has recognised this risk and, in Annex 15 of the WFTMR, sets out proposals for remedies to reduce that risk.

143. INCA welcomes Ofcom's recognition of these risks and, in particular, welcomes the extension of the geographic discount restriction in WLA Area 2 to cover FTTP as well as FTTC services.

144. We do, however have several concerns that Ofcom's proposals are not sufficient to provide the comfort required to maximise altnet investment.

5.4.1 Geographic discounting restrictions

145. Geographic discounts is an obvious route through which Openreach could target altnet deployment areas to make customer acquisition difficult and thus significantly increasing the investment risk.

146. INCA welcomes Ofcom's recognition of this risk.

5.4.1.1 WLA Area 2

147. Although Ofcom now proposes restrictions to apply to both FTTC and FTTP pricing (and to MPF pricing), we are concerned that Ofcom is not providing as much clarity as it could with respect to what kind of justification for geographic discounts could be acceptable to Ofcom.

5.4.1.2 WLA Area 3

148. In Area 3, Ofcom proposes to only apply the geographic discount restrictions to FTTC pricing, leaving Openreach free to offer specific local FTTP price discounts in areas where altnets deploy, or are planning to deploy.

149. Ofcom has explained that its reason for this is that Openreach is likely to use FTTC pricing to deter altnet market entry in Area 3. Ofcom has not explained why that is the case and we can only guess that, as Ofcom assumes that all Area 3 locations can only support a single FTTP network, Openreach can only use FTTP pricing when the FTTP network has been deployed and by that time it is too late for an altnet to invest.

150. INCA, however, believes that there are locations that are currently categorised as Area 3 where more than one network is viable and it is also possible for Openreach to enter the market in a specific location and create expectations about FTTP services and pricing in neighbouring towns and villages. Such actions could undermine altnet deployments.

151. On the other hand - considering the potential for and likely costs of extending the prohibition to FTTP services in Area 3 - it is difficult to see what legitimate motivation Openreach would have for specific FTTP geographic discounts in Area 3, where is faces limited competition, other than to deter altnet market entry. The costs therefore in the form of savings foregone by consumers from geographic FTTP discounts that would not have an anticompetitive impact would likely be very low (this assumes that retail ISPs would pass on the savings to end users, which is uncertain).

5.4.2 Loyalty schemes

152. INCA also has concerns in relation to Ofcom's proposals for how to prevent BT from engaging in anticompetitive behaviour through loyalty schemes and other similar arrangements.

153. INCA is pleased that Ofcom has formally accepted that BT has a strong incentive to deter altnet investment and that it could do so through contractual arrangements such as loyalty schemes. Openreach has the significant advantage of having existing large anchor tenants for its fibre-deployments, including its downstream BT retail businesses and all the large retail ISPs in the country. If Openreach is able to further strengthen that advantage through the establishment of contractual constructs that incentivise those anchor tenants to use the Openreach networks in preference to altnet networks, then that could be very damaging to the economic prospects for altnets.

154. INCA proposes that Ofcom's analytical framework[10] should be strengthened. In particular, INCA would like to understand what is understood by "the impact on nascent network competitors is unlikely to be material". It is not clear what is meant by the term 'nascent', nor what the materiality threshold would be. It is important that Ofcom understands that network competitors to BT remain vulnerable to anticompetitive behaviour by BT for some considerable time after commencing deployment, even after completing deployment. They remain vulnerable to such behaviour until a sufficient level of utilisation of the new

[10] Annex 15 paragraph A15.61

network is secured.

155. INCA is further concerned that Ofcom makes allowance for "arrangements that are essential to Openreach's business case", but appears to have significantly less concern as to elements that are essential to the business cases for altnets. Openreach already has significant advantages over altnets, including established anchor tenants as discussed elsewhere.

156. INCA urges Ofcom to focus on what is required to ensure that altnet deployment is not deterred or undermined, rather than protecting the Openreach business case.

6 Non-price remedies

157. In general, INCA agrees with the non-price remedies imposed by Ofcom, including the obligations to provide general and specific access and to publish reference offer. In this response we focus on Ofcom's proposed DPA remedy.

6.1 Duct and pole access

158. Many INCA members are using the PIA product offered by Openreach to comply with Ofcom's DPA remedy. They are finding that PIA can assist them in substantially reducing the cost of their full-fibre deployments and in reducing both the time taken to deploy and the impact on the environment of that deployment.

159. Whilst PIA can be very helpful, INCA's members have, however, also found that the product is not suitable for large scale deployments, that the Openreach procedures are not designed to make the product easy to use, that Openreach audit procedures appear to be inconsistent with the statements made by Openreach in the Passives Industry Working group (PIWG) and that the network adjustment processes are inflexible and cause additional costs and delays to PIA customers.

160. INCA believes that the fundamental underlying reason for why the PIA product is not yet (12 months after the improved PIA product was launched) at a level of functionality and customer focus that should be expected by now, is that Openreach does not want to supply PIA. Openreach is a vertically integrated organisation and has natural incentives to favour its downstream products and resist the ability of potential competitors to enter the market for those

downstream products.

161. INCA asks that Ofcom seriously considers whether the best way to ensure that the UK gets access to full-fibre networks in the shortest time reasonable and at reasonable costs, would be to structurally separate the duct and pole part of Openreach from the remainder of Openreach and from the whole of the BT Group.

162. It is critical that in the short term, in any event, that the remedy imposed by Ofcom from April 2021 makes it clear to Openreach that the quality of the product and supporting systems and processes need to become much better, fast.

163. At present the PIA product is not subject to Equivalence of Inputs (EoI) requirements. Ofcom does not explain why it considers this to not be necessary or appropriate for the PIA product and INCA urges Ofcom strongly to commence work towards the specification of an EoI-compliant PIA product as soon as possible.

164. Further, as implementation of an EoI-compliant PIA product will likely take some time, INCA urges Ofcom to strengthen the current non undue discrimination (NUD) provisions applied within the DPA remedy. Despite stating that it interprets its NUD provisions as requiring all systems and processes to be EoI where possible, Ofcom does currently not require that Openreach justify why current (and new) systems and processes are not EoI-compliant.

165. INCA urges Ofcom to change that position. Doing so would create clarity about where differences exist between how Openreach itself and PIA customers access and use the Openreach physical infrastructure, and why. The Openreach Internal Reference Offer (IRO) does not provide sufficient clarity on these points and INCA does not agree that this is a reasonable tool for reviewing Openreach's compliance with the spirit of the current NUD provisions.

166. INCA has become aware of an internal Openreach programme, New Sites Retrofits, that has not been announced in accordance with the transparency obligations mandated by Ofcom. Under this programme, Openreach builds FTTP in areas where premises are 30 years old or more, without first announcing this to the market.

167. 2. We believe this programme could cover up to 5m premises, or approximately 15% of the UK's housing stock. Openreach appears to unilaterally

exempt these premises from its fibre build transparency commitments. This poses a significant threat to CPs who wish to use PIA to deploy fibre networks.

168. We urge Ofcom to review its transparency obligation to ensure that it is worded in a manner that does not allow Openreach to initiate other such programmes that seem to be at direct odds with Ofcom's policy and which poses significant threats to CPs using PIA to deploy new all-fibre networks.

169. INCA members[1] have also experienced what they believe to be unfair behaviour by Openreach. With no explanation, Openreach has started "retrofitting" locations which are not included within its Fibre First or 227programmes, immediately after an altnet has issued a Notice of Intent (NOI) in the PIA map tool, which Openreach can see as a systems status change. In other words, Openreach appears to be reacting to the knowledge that an altnet intends to deploy using its ducts and poles. Clearly, any such behaviour will fundamentally undermine confidence that the PIA product can offer altnets a fair, transparent and non-discriminatory option to compete with Openreach to deploy full-fibre networks.

Ofcom is currently investigating the complaints made by our members in respect of such behaviour. We await Ofcom's conclusions with interest.

7 Ofcom's fibre cost model

170. INCA notes that the fibre cost model is being used by Ofcom for two purposes: to provide a range of unit costs for the FTTP rental service in Area 2 for comparison with the prices resulting from the CPI-0% charge control, and also to provide capex inputs for the RAB model used to determine K-factor values for the CPI-X+K charge control in Area 3.

171. INCA has not been able to perform detailed analysis of the fibre cost model, but has identified some areas that cause us concern.

7.1 Model scope

172. We understand that the scope of the fibre model is from the access node to the customer premises. As a result, the model fails to account for the non-access costs of serving a town such as the PoP, backhaul, systems etc and ignores factors which would generate significant economies of scale. The model may also exclude costs incurred by altnets in providing the equivalent to BT's wholesale products.

173. As a result, the model is not likely to be suitable for determining the viability of different areas for competitive investment. We understand that Ofcom is not using the model for this purpose, however we believe that some form of objective cost analysis should be included in that analysis and is also needed to allow the design of appropriate remedies to incentivise altnet investment.

7.2 Rollout sequence

174. INCA notes that Ofcom has changed the methodology used to determine the order in which the model assumes that postcode sectors are built. It is now done by ensuring that complete exchange areas are built, in ascending order of cost (proxied by length of underground infrastructure).

175. We understand that this new method does reduce the degree of fragmentation in the network build assumed by the model, but we do not believe that even after this change, the approach used is suitable to reflect actual costs of deployment, nor that the rollout sequence reflects reality.

176. Despite Ofcom's change to using exchange areas to determine build sequence, INCA understands that there remains a considerable variation in unit cost as coverage increases. This is particularly significant, as the REO scenarios used by Ofcom to determine the price range for comparison with the Area 2 charge control assume that only 3.5 million premises are covered. This results in a significant understatement of the unit costs relevant for the anticipated build of more than 8m premises.

177. INCA believes that, as Ofcom states that Area 2 comprises locations that are likely to be viable for competitive full-fibre deployment, the REO costing scenarios should reflect the costs of deploying to all of Area 2, not be artificially reduced by assuming that altnets will only deploy to £3.5m premises. Based on public statement's INCA is aware that CityFibre (including FibreNation) plans to deploy to around 8m premises, so using a 3.5m premises assumption seriously underestimates scale and cost of altnet deployment.

7.3 PIA usage

178. INCA understands that the fibre model has a range of assumptions which can be flexed to reflect varying re-usage of duct and poles in the three segments of the network across different geotypes and that the unit costs of the various scenarios modelled are highly dependent on these assumptions.

179. INCA does not believe Ofcom yet has sufficient information to populate these inputs with robust, real-world data and fears that Ofcom overestimates the PIA usage, with a resulting reduction in REO deployment costs. We suggest that the PIA assumptions should be further reconsidered and refined before Ofcom's decision is finalised and that Ofcom should err on the side of caution as adopting over-optimistic PIA usage assumptions could come at the cost of reduced altnet investment.

7.4 WACC

180. INCA further understands that the unit prices from the fibre model are strongly sensitive to the WACC used.

181. INCA notes that Ofcom has chosen to use the same WACC in the REO scenarios as for the Openreach Area 3 scenarios (the "Other UK Telecoms" WACC). It is suggested in the consultation that the use of reduced asset life in the REO scenarios to some degree compensates for this in providing greater investor returns. However, INCA's analysis suggests that the impact of these reduced asset lives is small and would be equivalent to an increase of only around 20 basis points on the WACC.

182. INCA believes there are strong reasons to allow for a larger risk premium to be applied for new entrants investing in FTTP networks, and that a significantly higher WACC should be used to reflect this.