

Ofcom: Promoting competition and investment in fibre networks

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Summary

- ***Pro-investment, pro-competition strategy*** to support new network rollouts across the UK
- ***Never been more important*** to get better broadband across UK
- Fibre build momentum maintained over past 24-months
- Consistent approach since 2018 → ***Predictable long-term regulation***
- ***Creating a long-term framework*** for all, delivering the ***right conditions*** to support further industry investment
- Currently do not expect to introduce cost-based prices for ***at least 10 years***
- ***Honour fair bet***; allow BT the opportunity to ***earn a fair return above its normal cost of capital***
- ***Investment case clear***: demand, scale opportunity and regulation



Our key decisions

- Our decisions promote **investment by all across all of the UK**; complemented by public funding in the most rural areas
- **Departure** in pricing approach to support **step-change in investment by all players**
 - Step away from cost-based to flat, **inflation-adjusted prices** on entry-level Openreach 40/10 anchor product
 - **Pricing flexibility** on higher speed products
 - A **premium on 40/10 FTTP** service to reflect customer benefits
- **Pricing approach consistent** across the country following Openreach commitment to build 3.2 million premises in more rural areas
- **Full backing and support** for retirement of legacy copper network
- Unrestricted access to Openreach **ducts and poles**
- **Quality of service** safeguards maintained



Regulation to support investment by Openreach & other operators

Duct and pole access – facilitates competition by cutting the upfront cost of building

Indexation of legacy services:

- Flat, inflation-adjusted, regulated price on entry-level Openreach 40/10 product across all UK

Price flex on faster services:

- Pricing flexibility on higher speeds (above 40Mbit/s)

Premium for FTTP:

- £1.70/month extra for 40/10 FTTP service reflecting customer benefits

Switchover:

- Stop-sell of copper services on 75% exchange coverage
- Withdraw copper charge controls two years later subject to full coverage

Long term contracts:

- Openreach to provide 90 days' notification on terms
- Particular concerns: loyalty discounts or pricing contingent on large volume commitments

Geographic pricing flexibility:

- Prohibition on geographic variations across Areas 2 & 3
- Can request consent to vary
- Recognise that variations may be justified in some cases

Consistent approach to regulation throughout the UK – Openreach's commitment to build 3.2m premises in Area 3

Future Regulation – ensuring a Fair bet

- Providing the required *certainty, stability and incentives* to invest
- Cost-based controls not expected **≥10 years**
- Sufficient competition in areas → **deregulate**
- Ongoing investment and competition → **regulate to support this**, while ensuring consumers continue to be protected
- If not, then examine consumer outcomes → **light touch regulation may be appropriate**
- If did need to apply cost-based prices then would **ensure the fair bet had been met**
- **Opportunity for returns above cost of capital** over whole full-fibre investment cycle



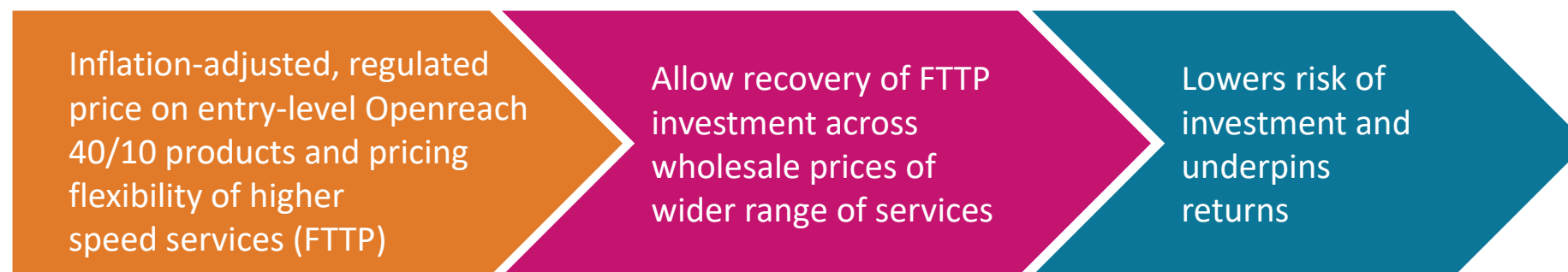
Conclusion

- ***Pro-investment, pro-competition strategy***
- The investment case has never been clearer and more compelling
- Framework provides ***certainty, stability and incentives*** for all builders to press ahead with delivering the broadband networks the country needs
- ***For BT:*** Addresses ***regulatory enablers*** and provides a clear path to ***honour the fair bet*** with the opportunity to earn ***a return a fair return above its normal cost of capital***
- ***For challengers:*** Access to ***ducts and poles*** helps levels the playing field; ***pricing decisions*** support business cases
- ***For all:*** Framework provides a ***sound basis*** to move forward with FTTP build plans across the UK
- Monitoring of Openreach and quality of service provisions provide ***key safeguards***

Annexes

Area 3 (no material competition): RAB model applied

- Despite DPA remedy, c.30% of the UK is unlikely to see material competition → **regulation designed to incentivise Openreach to build**
- Following Openreach 3.2 million build commitment, **wholesale pricing to mirror that in Area 2**
- **Regulated Asset Base (RAB) model:**



- Work with Government on **public funding** to support build in most rural areas
- **Inflation adjusted** leased lines charge controls as in majority of Area 2
- Cost-based **dark fibre access** for **leased lines in Area 3 only**

Supportive of new entrants business cases

Indexation of legacy services:

- Index prices for existing copper products helps inject more margin into network layer = greater margin for all network investors across all of UK

Pricing freedom:

- Regulated prices only for entry-level OR services
- Pricing freedom on higher speed and higher-quality fibre-based services

Area 3:

- Scope for smaller operators to continue build in subsidised and non-subsidised areas

Retail ISPs:

- Retail broadband providers have a stronger incentive to seek alternatives to Openreach
- Cross-platform switching proposals to come

Duct and pole access:

- Openreach to provide access
- Lowers upfront cost and reduces build time
- Being used by >100 companies – c.23,000km of duct and c.140,000 poles

Monitoring:

- Ofcom will level the playing field for competitors
- Monitoring of anti-competitive behaviour by Openreach
- Non-discrimination rules and restrictions on geographic pricing