



Telecoms Access Review 2026

PXC Consultation Response

June 2025

NON-CONFIDENTIAL VERSION

1 Introduction and Summary

Platform X Communications (PXC) is part of the TalkTalk Group. PXC plays a unique and important role in the UK telecoms market providing broadband and leased line connections to Internet Service Providers (ISPs) and resellers utilising networks including (but not limited to) Openreach, [Redacted] and [Redacted]. It is the UK's largest wholesaler to ISPs and supports TalkTalk Consumer, as well as over [Redacted] smaller ISPs who provide services to [Redacted] residential and business end-customers.

PXC is also committed to providing crucial support to the emerging Altnet sector, with ambitions to become the industry's aggregator of choice. We have wholesale supply agreements with five major Altnets and are hoping to add more, continuing to underpin the success of the Altnet sector and ensure a diverse and competitive supply. No other major operator connects to more than one Altnet¹ across their network.

This market review is crucial to the success of PXC, our Altnet suppliers and our ISP customers. We look forward to making a useful contribution which reflects not only the interests of PXC but also those of our customers and suppliers.

1.1 PXC welcomes the opportunity to comment on Ofcom's proposals for the Telecoms Access Review 2026 (TAR26).

1.2 PXC agrees with Ofcom when it says: "While the previous review set out a 10-year overarching strategy, the market review process requires us to review the relevant markets taking account of recent and prospective market developments"². In order to support FTTP investment alongside consumer protection, Ofcom's market analysis and remedies must take into account the significant changes in the market since 2021 and the large differences in competitive conditions. In particular, PXC understands:

- There will be limited further Altnet FTTP investment after 2026 (1-2m premises, a tenth of that expected in 2021). Therefore, stimulating further FTTP investment cannot justify continuing the nationwide CPI+0% price indexation approach for broadband and leased lines after 2026. This approach would cost consumers a further £3.5 billion in addition to the £3.3bn in the 2021-26 period (almost twice that of the £1.7bn Ofcom forecast in WFTMR21)
- Ofcom must reflect the very different competitive conditions in the Broadband / WLA (Wholesale Line Access) market compared to those in the Leased Line Access (LLA) market – otherwise there will be too weak or too strong competition in certain areas. For 2021-26, Ofcom imposed a 'one size fits all' approach to regulation and that would be inappropriate for 2026-31.
- In compiling our comments, we have spoken to our retail partners³ and incorporated their feedback.

¹ PXC currently purchase wholesale from [Redacted] and has agreements with [Redacted] and [Redacted]. Of the other major operators only [Redacted] and [Redacted] purchase from CFH. BT and VMO2 do not purchase from external FTTP networks.

² Telecoms Access Review 2026 | Starting work on the 2026-2031 review | 26 March 2024 | page 1.

³ For example, [Redacted].

- 1.3 We set out our comments on each of the defined markets that Ofcom considers: WLA (including Copper Retirement and Exchange Exit), LLA, IEC (Inter Exchange Connectivity), and Ancillary Services.
- 1.4 We make it clear where we support Ofcom's proposals and where we think they should be adjusted in order to deliver the desired outcomes to benefit the UK Telecoms Industry. We also layout our supporting justifications.
- 1.5 Broadly we welcome many of Ofcom's TAR26 proposals, however we believe Ofcom should give further consideration to the following:
- How Openreach may respond to the proposed **change in the 'anchor product'** speed threshold; avoiding unnecessary, Equinix related incremental price increases on higher speeds, which risks margin transfer from CPs to BT.
 - Strengthening **pricing remedies in WLA Area 3** given Ofcom finds there to be limited competitive constraint there.
 - Safeguarding QoS (**Quality of Service**) standards in **WLA Area 2** where competition is still nascent and Openreach act as a *de facto* industry benchmark for FTTP service.
 - Ofcom's role in facilitating **Copper Retirement / Exchange Exit, whilst ensuring there is a level playing field for CPs and Openreach to negotiate**. Thus achieving the objectives and mutually realising the benefits.
 - Refining the differentiation between the WLA and LLA markets by **recognising the limitations of XGS-PON** and updating the market definition accordingly.
 - A **starting charge adjustment for LLA Area 3 cost-based pricing**, in order to deliver the 'growth duty' on UK regulators set out by UK government.
 - **Future-proofing Ethernet circuit routing**, by requiring Openreach to expand its current Main Link offer on its priority 108 exchange exits, to all non-enduring exchanges until EAD 2.0 is rolled out nationally.
 - Applying a **cost-based charge control on active IEC products** in addition to the proposed remedies, given the practical limitations on switching over to Dark Fibre.
 - **Strengthening regulation on Ancillary Services** and moving towards cost-based charging.
 - **Indexing fixed monetary value Service Level guarantees (SLGs)** which have not kept pace with CPI, or other Openreach prices increases for some years.
 - Potentially **setting a safeguard cap on CPI indexation of 5%** in the event there is a peak in inflation, giving scope for Ofcom to validate against the actual increase in Openreach costs.

2 Wholesale Line Access (WLA)

No Area 1 Currently

- 2.1 PXC agree with Ofcom’s assessment, that no parts of the UK meet the threshold of ‘established’ WLA competition, where regulation would not apply. Effective competition requires not only the operation of multiple FTTP suppliers in an area, to provide consumers with choice, but also evidence of levels of adoption that act as a constraint on Openreach.
- 2.2 We support Ofcom’s approach that it needs to consider a wider range of rivals in this review – in the TAR26 Introduction Statement in Mar 2024 Ofcom said⁴:
- “In our assessment of competition, we will **not only** consider the presence of rival networks to Openreach **but, importantly, the level of competitive constraint** they place on Openreach and their ability to compete sustainably.”*
- 2.3 The degree of competitive constraint in WLA that a rival provides, depends upon a number of features in performance of each rival operator:
- actual and expected market share/take-up. We agree with Ofcom that market shares “provide a useful first indication of competitive conditions.”⁵
 - retail-only Altnets that do not wholesale (or have limited wholesale agreements) will provide less constraint because:
 - they often lack the brand strength needed to be competitive in the retail market against the larger ISPs **[Redacted]**
 - any constraint they provide in the WLA market is indirect (via the retail market) which weakens the constraint; and
 - the extent of wholesaling agreements will also need to be considered.⁶
 - Smaller network operators (i.e. less coverage) will provide less constraint because:
 - if they do not already wholesale, it is difficult for them to secure wholesale agreements, since ISPs tend to only integrate with larger Altnets given the high fixed cost involved. See for instance, WFTMR21 Statement vol 4 §7.48; and
 - **[Redacted]**
 - Altnets that only target a sub-segment of customers (e.g. those in MDUs, business only⁷) are less likely to provide a strong constraint.
- 2.4 Based on these factors, PXC agrees with Ofcom’s assessment that there is no evidence of any individual parts of the UK currently meeting the threshold to be categorised as Area 1.

⁴ Telecoms Access Review 2026 | Starting work on the 2026-2031 review | 26 March 2024 | §3.8

⁵ WFTMR21 | Statement Mar 2021 | vol 2 § 8.15

⁶ CFH, for instance, now has relationships with the majority of non-BT, non-Virgin ISPs (**[Redacted]**). Other altnets have limited wholesale agreements (e.g. **[Redacted]**). Whereas other altnets have no wholesaling agreements

⁷ For instance, ITS offers WLA FTTP services but only to business customers

Changing the Anchor Product

- 2.5 We support Ofcom’s proposal for the price regulated product (known as the ‘anchor product’) to increase from 40Mbps FTTC / FTTP speed tier to 80Mbps FTTC/FTTP. This reflects the fact that the majority of UK Broadband subscribers are now on product speed tiers of 80Mbps or higher.
- 2.6 Our view is that the current FTTC40 and FTTP40 anchors will provide an inadequate constraint for the 2026-31 period and provide minimal consumer protection. We believe that Ofcom could consider a change of the anchors to FTTC80 and FTTP80 (and possibly FTTP160), in the TAR 26 market review cycle. The full reasoning for this view is explained in the Frontier report⁸. In short, the key points are:
- There are a reducing number of customers on both the 40Mbps FTTC/FTTP products – in FY24 only 23%⁹ of Openreach FTTC/FTTP circuits were on 40Mbps and this is continuing to decline. Only **[Redacted]** of PXC FTTP customers¹⁰ are on the FTTP40 product and only **[Redacted]** on FTTP40 and FTTP80. We expect that the percentage on FTTP40 and FTTP80 will continue to fall.
 - As more customers move off the anchor product, the constraint which the anchor seeks to provide on higher speeds, diminishes. This is because there is a large resistance to downgrading speed, even if in response to large price rises on higher speeds. This could merit the belief that price rises on higher speeds are profitable. This resistance results from behaviours such as status quo bias, loss aversion and regret aversion. This is backed up by survey evidence.
 - Further, other constraints on FTTC80 prices will reduce because:
 - The Openreach contractual cap on FTTC80 prices will be removed in April 2026; and
 - The pressure to keep FTTC80 prices low, in order to be competitive against FTTP Altnets in areas where Openreach has not built, alternative supply of FTTP will diminish as Openreach FTTP covers more of the UK.
- 2.7 Lastly, in regard to the anchor, it is worth noting, that whilst not having an anchor on the FTTC80 product, prices will harm customers. It will have no material positive impact on FTTP investment. There is limited prospective Altnet FTTP investment currently; and, high FTTC80 product prices discourage Openreach FTTP investment, especially where there is no prospective Altnet FTTP investment. Furthermore, as *Frontier Economics’ Assessment of Openreach Profitability* found (see Appendix 1, image 9):

“Returns on copper / FTTC WLA services [are] significantly above the determined WACC [Weighted Average Cost of Capital].”

- 2.8 This translates to c.£1.25bn in additional returns on these services for Openreach over FY22-24.

⁸ Frontier Economics | Appropriate approach to pricing remedies on Openreach’s Wholesale Local Access (WLA) services

⁹ BT Regulatory Financial Statements FY24 | 7.1.1 Wholesale Local Access – Area 2 Summary | For the year ended 31 March 2024

¹⁰ Or more accurately customers’ customers

2.9 Therefore, PXC supports Ofcom’s proposal to change the Anchor Product for **both** FTTP and FTTC to 80 Mbps.

2.10 Nevertheless, we note Ofcom’s comments in TAR26¹¹ regarding the Openreach Equinox offer. In our view, after speaking with our major retail-facing ISP partners, it would be detrimental for Openreach to trigger the ‘Year 6 price’ review clause (e.g. uplift rental and ARPU share by an incremental £1pm and up to £20 more for connection), as retail ISPs would be highly unlikely to recover, resulting in margin transfer.

2.11 A key constraining factor on retail Communications Providers (CPs) is Ofcom’s General Condition C1.5,¹² in which retail providers are required to give customers advanced notice for any price increases with the figure (in pounds and pence) quoted in contract at point of sale. The vast majority of the market advises customers of a £3pm annual increase in April allowing for an inflationary increase in costs.

[Redacted]

2.12 However, this does not capture a potential additional increase in the core Openreach FTTP price, over and above inflation. Typically, consumer broadband contract lengths are for 18 to 24 months. So, it will take the market 18 to 24 months to fully adjust to such an increase.

2.13 Furthermore, there is no evidence that Openreach needs to rebase the Equinox FTTP prices, or that it would influence Openreach’s publicly committed FTTP build plans. In its full year results announced on 22nd May 2025, BT’s CEO stated:

*“The momentum in, and impact of, our full fibre programme is such that we are now raising our build target by 20% to up to 5m UK premises in FY26, keeping us **comfortably on track to reach 25m by the end of 2026**, while maintaining our cash flow guidance.”¹³*

2.14 The fact that BT is ‘comfortably on track’ to achieve its build targets, and to maintain cash flow guidance without an additional £1pm increase in FTTP rental prices, confirms a price rise is unnecessary for Openreach’s FTTP roll-out programme.

¹¹ Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31 (Volume 4, paragraph 1.34)

¹² Ofcom General Condition C1.5 requires CPs: to include within its customer contract the following information: (i) the Core Subscription Price; and (ii) any Core Subscription Price Change Information. The Core Subscription Price is defined as “the sum (however expressed in the contract) that the Subscriber is bound to pay to a Communications Provider at regular intervals for services and/or facilities the Communications Provider is bound to provide in return for that sum. It does not include sums payable for additional services or facilities (or the additional use of services or facilities) that the Subscriber is only liable to pay for if the additional service or facility is used.” The Core Subscription Price Change Information is defined as “if the Core Subscription Price is to change during the Commitment Period: (a) the changed Core Subscription Price(s), expressed in pounds and pence or units of a different currency; and (b) the date from which any changed Core Subscription Price(s) referred to in (a) shall have effect.”

¹³ [FY25 financial results & events - Financial reporting & news - Investors | BT Plc](#)

2.15 In our October 2024 submission to Ofcom on market analysis and remedies, PXC challenged the assumption, that higher FTTP prices would lead to further investment either by BT or Altnets, particularly at this stage in the product rollout.¹⁴

2.16 In summary our arguments were:

- We estimate that after April 2026, the amount of potential future Altnets FTTP build is limited – probably 1-2 million premises ¹⁵.
- In practice, raising Openreach prices is a highly ineffective, inefficient and wasteful means of improving returns on Altnets FTTP investment, since so little of the price increases reach Altnets’ cashflows. Most is captured by BT shareholders through extra dividends.
- We think that after 2026, little additional Altnet FTTP build is likely. We explain our reasoning below:
 - First, Altnets generally tend not to ‘overbuild’ other Altnets since there is not sufficient market share to support two (or more) Altnets, as Altnets rely on the same limited addressable market (non-BT, non-VMO2 share). This is demonstrated by public comments from a number of Altnets about how they actively avoid ‘overbuild’.¹⁶
 - Second, Altnets are unlikely to build in areas where Openreach has already built FTTP. We understand that some Altnets currently avoid areas where Openreach has already built FTTP. The difficulty in building share in areas where Openreach has already built is greater due to the high take-up that Openreach has achieved. E.g. where the build was 3-years old uptake was 40% and by 4- or more years old uptake was at 50%.¹⁷

This has been in part helped by Equinix measures and the stop-sell on legacy products, which both accelerate the migration to FTTP. Therefore, it is not viable for Altnets to build FTTP in areas where Openreach has already build FTTP.

¹⁴ PXC Submission on Market Analysis and Remedies, October 2024, see sections 2.4 to 2.117

¹⁵ Enders Analysis estimates altnet (excl VMO2/nexfibre) coverage growing by about 2-3% after 2025 (i.e. under 1m). Virgin coverage increase will mostly be upgrading DOCSIS to FTTP which is not relevant Nexfibre have stated ambition to grow to 5m by 2026 so unlikely significant additional coverage after April 2026. Sources: Enders Analysis | TAR 2026: You can’t always get what you want... | Figure 7. <https://www.nexfibre.co.uk/our-network/> Ofcom’s Connected Nations - Planned Network Deployments 2024 report shows that in in May 2026 there will be 12%-15% of the UK not covered by FTTP which is 4-5m premises (total premises 31.8m) and the majority in rural areas (and by May 2027 4%-5%). The majority of future build after this 2026 is likely to be by Openreach. This suggests that 1-2 million altnet build is optimistic particularly since some premises will remain uncovered (unless heavily subsidised)

¹⁶ Some examples can be found at following links: [Zoomm still aiming for 1m+ full fibre prems, says CEO Matthew Hare, despite stopping build at 200k](#); [Preparing for the big consolidation as Alt-net Goldrush gets tougher - Neil McArthur, Freedom Fibre](#)

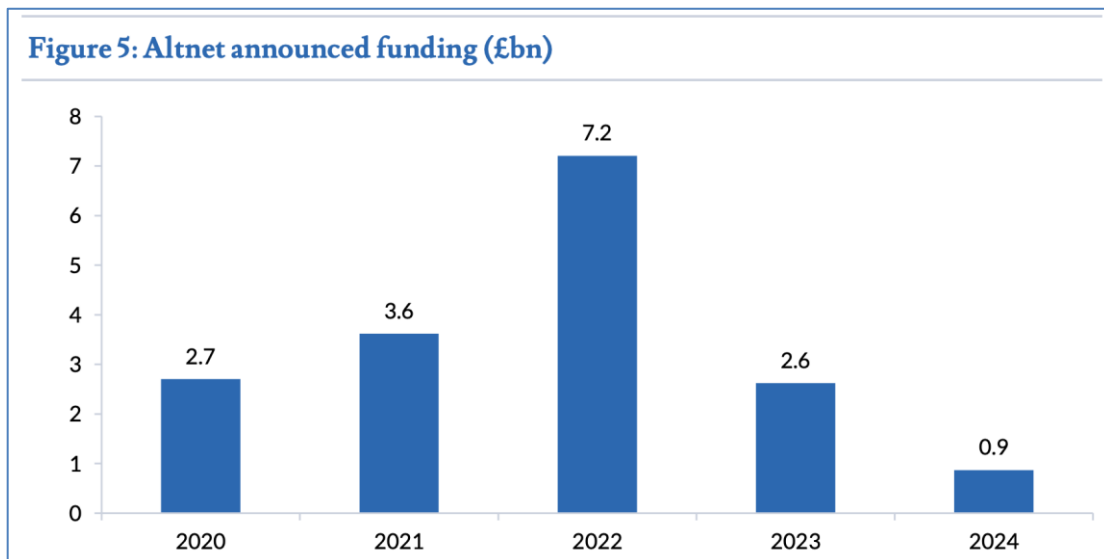
¹⁷ Openreach Business Briefing | 7 Dec 2023 | page 19

- Third, many of the remaining unbuilt areas in 2026 will be less economic rural or hard to reach areas, with a high cost to build, which will not be viable for some Altnets.¹⁸

Thus, the market opportunity for where it is viable for an Altnet to build is diminishing – due to existing Openreach FTTP, or Altnet networks or, because the cost to build is too high. This idea of there being a closing market opportunity on the horizon is already playing out. Altnet build rates are slowing and several have announced reductions in their plans. Enders Analysis highlighted in its February 2024 report the slowdown in build:¹⁹

“[2023] was regularly punctuated by announcements of roll-out slowdowns/pauses and layoffs, with around 70% of the Altnet coverage base making some kind of public announcement, and more besides likely affected... a slowdown [in build] in 2024 is looking very likely, with financing drying up due to tougher financial conditions”

This is in large part driven by a reduction in funding which the following chart from Enders Analysis starkly shows.²⁰



2.17 Based on this evidence PXC do not believe an increase in the Openreach monthly rentals will have any positive impact on the roll-out plans for FTTP and that it would only serve to harm consumers, increase BT profits, and risk margin transfer. We strongly urge Ofcom to make Openreach aware that Ofcom has the power to review the Equinix contract, and would do so, if Openreach went ahead with the incremental price increases under the ‘Year 6’ price review clauses.²¹

¹⁸ Ofcom’s Connected Nations - Planned Network Deployments 2024 estimates for May 2027 urban covered (25.6m premises, 99%) and rural (3.8m 88%). This implies that uncovered there are 250k urban not covered and 500k rural.

¹⁹ Enders Analysis | UK altnets: The beginning of the end... | Page 1. Figure 4: Altnet job losses and slowdowns

²⁰ Enders Analysis | TAR 2026: You can’t always get what you want... | Figure 5. The 2024 figure is for ~9 months

²¹ Equinix 1 contract, clauses 15.1 to 15.5; and Equinix 2 contract, clause 4.1

- 2.18 Ofcom should also make clear that it will require Openreach to give 18 month’s formal notice on this occasion if it proceeds. This would, at a minimum, allow retail providers the time to react and update consumer contracts as they are renewed.

Pricing Remedy in Area 3

- 2.19 Given that Ofcom concludes that in the absence of competitive constraint, Area 3 requires regulatory intervention to guarantee FTTP quality of service (QoS) standards;²² PXC believes this raises the question as to what effective constraints there are on Openreach pricing in the same postcodes, particularly if there is limited prospect of competition developing in the medium to long-term?
- 2.20 In our October 2024 submission to Ofcom, PXC previously provided evidence that Openreach will materially recover FTTP costs:²³

“We accept that in setting prices Ofcom must take the fair bet into account. However, in relation to Openreach returns it is worth noting that over the 2021-26 period their excess returns (in SMP markets) will be £3.3bn which will continue to some extent in 2026-31 (depending on TAR26 regulation). This compared to a forecast in WFTMR21 of £1.7bn. Openreach average FTTP prices are at least 40% above the price necessary to breakeven²⁴. Therefore, there seems to be no justification that Openreach requires higher prices to earn an adequate overall return.

High legacy prices are [also] not necessary to allow efficient scale Altnets a reasonable return on their investment. There is various evidence which indicates that efficient Altnets can make adequate returns. Openreach FTTP prices are above the level necessary for Altnets to be viable (£11.10-£15.93²⁵). In its Equinox 2 decision Ofcom said: ‘Openreach’s average FTTP price under the Equinox 2 Offer is above the top end of the estimated range for the unit cost of a reasonably efficient altnet in Area 2’.”

- 2.21 In the absence of effective competition in Area 3, there will be no restraint on this pricing being significantly above the level needed by Openreach (or any other FTTP provider), to make a reasonably efficient return. This argument logically follows Ofcom’s conclusion that the lack of competition in Area 3 requires a more rigorous regulatory intervention, to protect service levels in this region.
- 2.22 Consequently, PXC believes Ofcom should consider a more robust pricing remedy for Area 3. For example, a price cap of CPI-2% would counteract the lack of competitive pressure on

²² *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 5, paragraph 3.43)

²³ PXC TAR26 Submission on Market Analysis and Remedies, paragraphs 2.104 & 2.105

²⁴ In 2021, Frontier Economics conducted an analysis that showed that if Openreach FTTP prices were set at £9.49 in 2020/21 and indexed by CPI then Openreach would cover their FTTP investment (in Area 2 and 3 but excluding the most rural areas). In other words, this was the ‘breakeven’ price. The breakeven price in 2023/24 (given inflation) would be £11.40. In its Equinox 2 Statement (\$4.39) Ofcom said that Openreach average price was above £15.93. The actual uptake is higher than projected meaning the breakeven price is likely to be lower

²⁵ Openreach proposed FTTP offer starting 1 April 2023 (Equinox 2) | Statement May 2023 | \$4.39

Openreach. We accept that this would have implications on the current Equinox offer, but believe a regulatory intervention would be a better way to provide certainty and protection for consumers in Area 3.

Openreach Discount Offers

- 2.23 PXC supports Ofcom’s proposal to permit Openreach to make further FTTP discount offers to the market, subject to Ofcom guidance and on a case-by-case basis.²⁶
- 2.24 We consider that Openreach should continue to be able to make additional commitment-based offers broadly, in line with the approach Ofcom outlines.
- 2.25 Equinox 1 and 2 have both encouraged ISPs to increase uptake of Openreach FTTP services, versus using legacy products, by providing price discount incentives if an order mix target is met (Openreach FTTP orders of all Openreach orders – FTTP + legacy). This mechanism does not create an incentive to divert volume from Altnets. It is a practice which is in consumers’ interests, since it allows lower retail prices and more effective competition between ISPs²⁷ (whether they be larger scale or Altnets).
- 2.26 Equinox 2 (and Equinox 1) can also indirectly benefit Altnets. Openreach’s offer has had and will continue to have, the effect of increasing ISPs’ commitment to and investment in retailing FTTP. Through, for instance, accelerating product developments that support FTTP (such as VoIP), increasing marketing focus on FTTP, stopping selling of legacy products, applying the same pricing between FTTC and FTTP, as well as raising all customers’ awareness and demand for FTTP. These measures will not only apply to and benefit Openreach, but it will also benefit Altnets since the same approach will apply similarly to Altnets.
- 2.27 We do however have a concern regarding the ambiguity of Ofcom’s proposals about the impact of changing the boundaries between WLA Areas 2 and 3, and the associated connection prices:
- “Our proposed changes to the WLA market boundaries will result in connection charges varying within the newly defined Area 2 from 1 April 2026. These geographic variations in price would in principle be caught by the geographic discrimination prohibition. Openreach could apply to us for consent in writing in order to avoid disruption to the market, and we would expect to consult on any proposed consent in accordance with section 49A of the Act.”²⁸*
- 2.28 It is PXC’s position, that customers should not be commercially disadvantaged by any change in the Area boundaries and, if anything, should be allowed to benefit from reduced connection charges. We think there would be benefit in aligning FTTP connection charges in

²⁶ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 3, paragraph 9.63 and 9.64)

²⁷ If wholesale prices are closer to cost, there will be less distortion between BT’s vertically integrated ISP activities and external ISPs who purchase from Openreach

²⁸ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 3, paragraph 9.29)

Area 3 with the discounted charges across Area 2 given the limited Altnet competition in Area 3. We urge Ofcom to consider and provide clarification on this.

WLA Service Standards

- 2.29 PXC notes that Ofcom has proposed introducing QoS standards on Openreach FTTP in Area 3, which we support. However, as per our previous submission, PXC's experience is that Openreach effectively sets the *de facto* QoS benchmark for FTTP services across the UK including in Area 2. This is because competition is still nascent in Area 2, and Altnets lack the extensive experience and track record to develop service standards and models which would vary significantly from those set by Openreach.
- 2.30 Openreach effectively acts as a "**service anchor**". Based on our experience of negotiating with the widest reach of Altnets, the key competitive choices in FTTP supply are determined by availability and price. We can see no likelihood of that changing in the current phase of the product life cycle.
- 2.31 Therefore, PXC believe there is a risk of not holding Openreach to the same QoS obligations in Area 2 as Area 3. This risk is compounded when we consider that so far, the focus of FTTP build has been the locations and properties which have been relatively easy to cover or known as '*low-hanging-fruit*'. As the build now progressively turns to those locations and properties which are harder to reach, the risks of customer delay and connection issues increase. It is yet to be seen what this will mean in terms of workstacks and overall service levels, but the absence of QoS regulation for Area 2 provides no service protection for CPs and their customers.
- 2.32 PXC believes that, in order to facilitate customer adoption of FTTP, PXC service standards should be above those experienced by customers of copper and FTTC products. This is consistent with consumer expectations of a new, premium product. Considering these points, PXC contends that Ofcom should reassess which QoS obligations are required from Openreach for Area 2.
- 2.33 In recent years CPs have collectively made a significant effort to negotiate QoS standards with Openreach via industry forums. However, progress has been frustratingly slow and borne little fruit. After two years of trying to negotiate a common set of FTTP service metrics and 'ambition' targets, CPs have still not managed to obtain Openreach's agreement. This reflects the lack of negotiating power CPs have with Openreach, even when they act collectively and regardless of whether focussing on Area 2 or Area 3.
- 2.34 The actual experience of how Openreach negotiates service issues with industry, provides indisputable evidence to support the belief that Ofcom needs to take a more robust regulatory stance in **both** Area 2 and Area 3.
- 2.35 Ofcom should also be clear, that it will track Openreach FTTP service performance in Area 2 and regularly publish the results. Otherwise, Altnets will not be able to independently assess their own performance against Openreach, which would be counterproductive to Ofcom's aims to facilitate service competition for FTTP.

2.36 Finally, PXC believe it is essential to maintain QoS Minimum Service Levels on Openreach copper and FTTC products, to protect against a diminishing of quality elsewhere in the WLA portfolio, as the focus is on FTTP.

Copper Retirement / Exchange Exit

2.37 BT's exchange closure programme is a major transition that will provide BT substantial cost savings in space and power – probably £100s millions per year. However, to achieve this, it will require significant extra costs to customers and CPs to migrate customers and circuits to new products delivered from different locations. As per our submission to Ofcom of October 2024, we remain of the view that:

- At a minimum, BT should cover all reasonable costs incurred by CPs due to BT's exchange closure programme.
- BT should only be allowed to withdraw legacy copper products and/or terminate a CP's licence to use a BT exchange, where certain prescribed circumstances have been met. Including: offering to cover CPs' costs; provision of high-quality migration products supported by SLA/SLGs; and, meeting stringent FTTP and SoGEA coverage targets.
- Ofcom should set up the OMU and the OTA to allow a high degree of transparency and to provide close monitoring and management of the programme, to ensure concerns can be quickly addressed; and
- Ofcom should facilitate the dialogue between telecoms networks and groups representing certain affected users – such as Telecare providers or device manufacturers.

2.38 We note that Ofcom is proposing to introduce a Stage 2 trigger, to encourage copper retirement, in addition to the existing Stage 1 requirement (75% FTTP coverage in an exchange area resulting in a stop sell of new copper circuits notification).²⁹

2.39 The Stage 2 trigger will, (on reaching 100% coverage with exemptions) permit Openreach to raise MPF / FTTC prices for existing customers. As outlined in our prior submission, there are practical issues which make passing on price increases to specific customers unworkable. As such, we fear the efficacy of this measure, and influencing consumer behaviour will be negligible.³⁰

2.40 Notwithstanding that concern, PXC believes that Ofcom's proposals for a consultation on the "exemptions" will be critical. If the definition is too broad, the incentives on Openreach to reach 100% FTTP coverage in an exchange area, will be significantly undermined. Consequently, there is a prospect that large numbers of UK customers will be left stranded on higher priced services.

²⁹ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 3, paragraph 2.20)

³⁰ PXC TAR26 Submission on Market Analysis and Remedies, October 2024, paragraphs 2.132 & 2.133

2.41 Our suggestion is rather than consulting in an attempt to pre-define the exemptions, Ofcom does not fetter its discretion and instead waits for Openreach to come forward with real world cases, where it requests an exemption in an exchange area that would otherwise meet the 100% threshold. This would maintain the incentive on Openreach, to minimise potential exemption scenarios and to enable Ofcom to take an evidence-based approach to considering the requests.

2.42 We welcome Ofcom's proposal **not** to introduce a stage 3 trigger which would permit Openreach to give notice of termination for existing MPF and other services.³¹ Specifically we agree with Ofcom's assessment that:

"Removing Openreach's current requirement to supply MPF on charge-controlled terms and giving Openreach the option to unilaterally switch off service at specified dates could reduce some telecoms providers' bargaining power in these negotiations, with the risk that this could lead to worse outcomes overall."³²

2.43 This is essential to enable CPs and Openreach to commercially negotiate the terms of exchange exit. There is already evidence that this has helped industry negotiations regarding Openreach plans for completely exiting 108 exchanges, with Openreach offering terms to industry in November 2024.³³

2.44 PXC believes there is still further to go in ensuring good outcomes for all parties in reducing the number of exchanges across the UK. Openreach should continue to offer CPs incentives to cover the costs of exit, and high-quality migration products with explicit SLAs.

2.45 We also recommend that Ofcom introduces safeguards on the pricing of Ancillary Services (See section 5.12). This would ensure that Openreach cannot leverage those products to exert undue pressure on CPs to exit specific exchanges or products outside of the industry agreed Exchange Exit terms. We believe Ofcom should be explicit that whilst meeting the threshold for Stage 2 of 'copper retirement / exchange exit', may result in greater pricing freedoms for Openreach in terms of the legacy copper-based circuit products, it does not apply to the other products relating to exchange presence e.g. increase prices for space, power, or ancillary services which a CP is required to purchase to serve customers in exchanges.

3 Lease Line Access

Market Analysis

3.1 Leased Lines provide critical communications services for business, enterprise, and governmental customers, underpinning the UK economy. They provide high-bandwidth,

³¹ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 3, paragraph 2.108)

³² *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 3, paragraph 3.47)

³³ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 3, Table 3.1 page 44)

dedicated connectivity, with guaranteed fast repair and resilience options. They are therefore essential for public services and enterprise organisations.

3.2 Whilst the market is mature, it takes time to change for structural reasons. These include the high-upfront costs, long contract periods, along with costly and complex migration processes. The requirement for scalable reach and guaranteed service quality acts as a barrier to market entry and development of effective competition. The LLA market is profoundly different from the mass, WLA market, which will not change in the review period.

3.3 Consequently, **PXC supports Ofcom’s approach to defining Area 2 and Area 3 independently in the LLA market, versus the WLA market.** As we set out in the PXC TAR26 Submission on Market Analysis and Remedies in October 2024, these are fundamentally different markets and the presence of FTTP Altnets does not wholly correlate with effective competition in LLA.

3.4 An LLA rival provides much less competitive constraint on LLA services than a rival offering WLA on WLA services. This reflects four well-understood dynamics:

1. Inability to differentiate the product (unlike in WLA).
2. There is no ‘market transition’ opportunity in LLA (as there is in WLA).
3. LLA providers have significant cost disadvantage versus Openreach (which is not the case in WLA); and
4. **[Redacted]**

3.5 These factors are supported by independent market analysis. A recent Enders Analysis report highlighted this difference between LLA and WLA:³⁴

“One area which has not developed as much as could have been hoped is leased lines, i.e. dedicated business ethernet connections ... there has been quite limited increased competition in business connectivity, with most altnets highly consumer-focused and not even offering leased lines ... This is likely not due to a lack of capability, but difficulty with small providers developing the credibility and reputation of reliability required for the business market.

... According to BT’s latest [RFS], Openreach is making a return of 22% on its regulated leased line products ... with competition (or lack thereof) clearly having an effect here.”

3.6 Regarding the consideration of **XGS-PON** (10 Gbps Symmetrical Passive Optical Network) as an alternative to Ethernet, PXC’s view is this is not a feasible constraint on Leased Lines (or Ethernet). This is because it is a fundamentally different product. Unlike XGS-PON, Leased Lines (or Ethernet) offer dedicated point-to-point circuits, fast repair times, resiliency options, and better latency or jitter performance.

3.7 Accordingly, Ethernet is used by governmental and business customers for circuits where high performance and resilience are required. The service and operational models are entirely different. The two products are not directly comparable.

³⁴ Enders Analysis | TAR 2026: You can’t always get what you want... | Page 8

- 3.8 Furthermore, Altnets (i.e. potential XGS-PON providers) do not act as an effective constraint on Openreach in the Leased Line (or Ethernet) market. This is reflected in the evidence from Enders Analysis (see para 3.5) and matches the experience we have shared with Ofcom; that there is little overlap between the consumer and business markets, credibility is an issue, as is the operational practicality of integrating with multiple smaller, geographically focused Altnets.
- 3.9 Therefore, **we recommend Ofcom excludes XGS-PON based service from the LLA market definition** for this review period.
- 3.10 PXC concurs with Ofcom’s assessment that cost-based pricing should be introduced on Openreach 1Gbps Ethernet services and below. The evidence from Frontier Economics demonstrates the high returns Openreach make on Ethernet circuits. Frontier Economics found this translated *“to c£260m in additional returns on [LLA] services over FY22-24 versus if returns reflected the relevant WACC”* (see Appendix 1, image 10).
- 3.11 We note that the remedy Ofcom proposes is for a CPI - 6.75% price cap for each of the 5 years of the market review, resulting in a c.30% price reduction by the end of the period.
- 3.12 Considering the government’s ‘growth agenda’ for the UK which regulators have a ‘duty’ to facilitate,³⁵ PXC believes it is more appropriate for a starting charge adjustment at the commencement of the market review period (i.e. April 2026) rather than a 5-year glidepath.
- 3.13 Ethernet is a business /enterprise product, thus making an immediate starting charge adjustment is consistent with and facilitates, the UK government’s growth agenda. The speedy adoption of cost-based pricing for Ethernet would assist UK businesses and institutions by reducing their communications budgets, freeing up cash for investment and improving their competitive position.
- 3.14 Further, **PXC strongly supports Ofcom’s proposal to remedy Openreach’s active product (Ethernet) prices directly, by applying a price cap**. End customers need protection from high Openreach returns and we observe that Dark Fibre Access (DFA) has not proved an effective remedy in the LLA market, nor will XGS-PON (for the reasons cited in paragraphs 3.6 to 3.8). As we have previously stated to Ofcom, there are practical operational considerations as well as brand and solution credibility issues which hampers the potential for DFA (or XGS-PON) to act as a constraint.³⁶

Service

- 3.15 PXC agrees with Ofcom’s assessment that regulatory obligations on Ethernet QoS should remain.³⁷ This market is critical to supporting UK Plc., with many UK businesses and public service organisations relying on Ethernet connectivity. It is essential that customers are protected, and that they can rely on high standards of service. Whilst currently Openreach service performance is in a ‘better’ place, historically there have been ‘service crises’ in this

³⁵ [New approach to ensure regulators and regulation support growth \(HTML\) - GOV.UK](#)

³⁶ PXC TAR26 Submission on Market Analysis and Remedies, October 2024, paragraphs 3.55 to 3.62.

³⁷ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 5, paragraph 4.31)

market, which are well documented. Minimum service levels are vital to disincentivise Openreach from allowing service to slip back.

Product Development

- 3.16 Like other CPs, PXC is working with Openreach as it develops its Ethernet Access Direct 2.0 product. The product will significantly change the way Ethernet circuits are ordered and routed in the Openreach network. EAD 2.0 will take time to develop and roll-out. Openreach informed the industry Ethernet Products Commercial Group (EPCG), on 20th May 2025 that the launch date was being pushed back from March 2026 to December 2026.
- 3.17 Given the strategic significance of Ethernet in supporting the UK business sector, we believe Ofcom should monitor industry discussions on EAD 2.0 development and roll out, to ensure it is fit for the industry's requirements.

EAD Main Link Charging

- 3.18 To facilitate Openreach's Exchange Exit programme (specifically the 108 exchanges Openreach is prioritising for complete closure), new Ethernet circuits are only being charged for the (fixed) Local Exchange connection and not the *Main Link (which is an additional distance related charge for when a circuit is routed through multiple exchanges)*. Even if the circuits are being routed to a parent exchange in the network.
- 3.19 This is a pragmatic approach, as otherwise industry will be connecting circuits to an exchange that is due to close and CPs would, at some point, have to migrate those circuits to another exchange in the medium term. Considering the lifespan of an Ethernet circuit, this would result in customer disruption and unnecessary cost.
- 3.20 PXC recommends Ofcom investigate extending this practice nationally from April 2026 until the full roll-out of EAD 2.0 is completed. This will encourage Openreach and CPs to future-proof circuit routing for new Ethernet orders, in anticipation of the full roll-out of EAD 2.0 and longer-term exchange closures across the UK, by removing the current commercial obstacles of Main Link charging.
- 3.21 Taking this approach will lessen customer disruption by mitigating the risk of *double-hop* and reduce the overall volume of Ethernet circuits that need to be migrated. This is especially important considering the dependency of UK businesses and critical national infrastructure on the premium, dedicated, high bandwidth Ethernet product.

4 Inter Exchange Connectivity

- 4.1 We note that Ofcom identifies the constraints on competition in the IEC market. As per the evidence we previously provided, the returns on Openreach's active products e.g. Ethernet / Wavelength Division Multiplexing (WDM), are excessive. The Frontier Economics Assessment of Openreach Profitability (see Appendix 1, image 12) found that adjusted Openreach IEC returns in BT Only and BT +1 competitor exchanges, had risen through the period to 88% by

FY24. Frontier Economics concludes that this translates to “c.£290m in excess returns over FY22-24.”³⁸

- 4.2 PXC welcome the fact Ofcom has decided to rectify this situation in its TAR26 proposals. However, we do not believe the suggested remedy, of increasing the number of exchanges eligible for Dark Fibre (DFX) and reducing the price, goes far enough. Although increasing DFX availability from 3,650 exchanges to 4,950 exchanges will benefit some in the market, it does not address the fundamental issue of excessive recovery by Openreach on the active Ethernet / WDM products from Openreach.
- 4.3 Our concerns with Ofcom’s proposed approach are based on the following:
- DFX repair times do not match those of active Ethernet / WDM, which is a significant disadvantage to switching over critical backhaul circuits. These circuits carry high volumes of traffic and connect key exchanges and datacentres.
 - Changing backhaul circuits from Ethernet / WDM to DFX takes time and involves capital outlay. PXC know from our own recent experience of reconfiguring our backhaul architecture, how complex and consuming such projects are. **[Redacted]**.
 - **[Redacted]**.
 - Reconfiguring our network again risks further disruption and will not be commercially viable whilst we are so early in the payback period**[Redacted]**.
 - The industry is now looking to reduce exchange presence, whether through CP specific rationalisation projects, or through Openreach’s own Exchange Exit programme. So, investing in new DFX circuits is fast becoming unattractive for non-enduring exchanges
 - Openreach’s c.1,100 enduring exchanges or OHPs (Optical Handover Points) are less suitable for DFX coverage, or, because of the strategic architecture of these networks, links require the assurance of shorter fix times, which are only available from Openreach’s active portfolio.
- 4.4 Additionally, the scope to use active services from alternative providers in this market is of limited scope. In PXC’s experience, none these providers (apart from **[Redacted]**) are a strong alternative to Openreach and so provide no material constraint.
- 4.5 PXC is potentially one of the largest purchasers of IEC circuits (as backhaul between exchanges). **[Redacted]**.
- 4.6 The reason for not using other providers is straightforward: there are operational and system complexities as well as cost from using multiple providers (even if they have the technical capability) and given these other providers only have small footprints (and can provide just a fraction of all circuits), the potential benefits are not outweighed by the cost.
- 4.7 It is worth noting that FTTP Altnets will not be attractive suppliers of IEC circuits. Even if an Altnet has material coverage, because their footprint is geographically dispersed (i.e. not concentrated in one region) they will be unable to provide many IEC routes e.g. they might have 20% coverage of the UK but only be able to provide 5% of IEC routes.

³⁸ *Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31* (Volume 4, paragraph 3.34)

- 4.8 For these reasons, PXC believes Ofcom should review active Ethernet / WDM pricing in the IEC market. We believe based on the evidence from Frontier Economics, that there is a strong argument for a cost-based charge control, at least on existing circuits, with an immediate starting charge adjustment.

5 Ancillary Services

- 5.1 In this section we provide a number of comments on the regulation of Ancillary Services (which include certain migrations, connections, tie cables, Cablelink, accommodation and power). Our comments cover ancillary services in the WLA, LLA and IEC markets as well as shared ancillary services. The full list of ancillary charges is laid out in WFTMR21 Statement Mar 2021 | vol 4 table 5.1-5.6.
- 5.2 PXC notes that in the WLA and LLA markets, for both Area 2 and Area 3, Ofcom propose a price cap of CPI+0%. The prices of shared ancillary services are currently substantially above cost. In the period FY22-FY24 Openreach revenues were about 20% above cost resulting in a ROCE of 16% - more than twice the WACC (See Appendix 1, image 13).
- 5.3 Therefore, existing regulation has proved to be a weak constraint on Openreach pricing. PXC consequently argues that Ofcom needs to go further and should strengthen the regulation in this market, taking steps to move pricing back towards costs, perhaps with a CPI-2% cap.
- 5.4 There were many other essential ancillary services which were not covered under the charge controls, or basis of charges obligation. We refer to these as “Non-charge controlled Ancillary Services” (“NAS”). For these NAS, a ‘fair and reasonable’ requirement applied. Ofcom explained this as:

“Our general position is that we would interpret this fair and reasonable requirement to mean that BT should not set prices that would equate to a margin squeeze under ex post competition law for existing and new forms of network access. While we would assess any dispute on the relevant facts, our starting point for evaluating cost and margins on individual services in this context would be to allow a LRIC retail margin on each service, assessed by reference to an equally efficient operator (EEO) standard. For the avoidance of doubt, under our interpretation of this fair and reasonable requirement, BT is also required to cover its retail costs across a broader portfolio of broadband products, such that BT’s rivals can supply a comparable range of products.”

- 5.5 This regulation imposes no effective constraint on NAS prices beyond competition law, which already applies anyway. In one sense, it is unclear what purpose this regulation has – it is regulation that has almost no effect. It also appears to be inconsistent with Ofcom’s explanation of *ex ante* regulation:

“The regulation is forward-looking (‘ex ante’) in nature, rather than relying on retrospective ‘ex post’ competition law to address concerns arising from identified conduct³⁹”

³⁹ Telecoms Access Review 2026 | Starting work on the 2026-2031 review | 26 March 2024 | §2.2

5.6 PXC recently experienced the ineffectiveness of the regulation of NAS, where Openreach was exhibiting harmful monopoly behaviour, and which regulation could not address. It is explained in the box below.⁴⁰

In April 2023, Openreach announced that it would increase the FTTP late cancellation charge from £115 to £185. They initially argued that the key reason for the substantial increase was to incentivise CPs to reduce late cancellations.

When CPs explained why this could not be the case, Openreach accepted this, but then argued that the increase was due to high costs of late cancellations. CPs provided information on why the increased costs resulting from late cancellation were far less than £185 (and £115), but Openreach refused to engage. Openreach instead insisted it would impose the increase whatever (which it did).

We also had discussions with Ofcom, and it became clear, that the 'fair and reasonable' requirement could not prevent this behaviour. The increased cost across industry of the increase is about £5m per year.

5.7 **[Redacted]**.

5.8 The 'margin squeeze under competition law' test applied, gives Openreach substantial ability to set NAS prices far above incremental costs, LRIC+ (Long Run Incremental Costs) or FAC (Fully Allocated Costs⁴¹). Furthermore, in practice, the 'fair and reasonable' requirement provides no constraint on Openreach since it is close to impossible to bring a successful *ex post* margin squeeze case on NAS. CPs lack access to relevant costs for BT's downstream activities and information to analyse recovery across the broader portfolio of broadband products.

5.9 Furthermore, it would require a disproportionate level of effort (both by CPs and Ofcom). There is in practice a regulatory lacuna with no meaningful price constraint on NAS.

5.10 Ofcom's approach is inconsistent with its objectives to protect customers. Whilst it constrains other wholesale prices (directly and indirectly) to protect consumers, for NAS, it leaves a 'loophole' for Openreach to increase its margins beyond what is in consumer interests. It also increases uncertainty.

5.11 We therefore consider that a stronger (but proportionate) approach needs to be imposed. This could include:

- Imposing charge controls that mirror the main charge control on some NAS (so they are no longer non-charge controlled);
- Imposing safeguard cap on all NAS (e.g. a cap of 3% above the main cap;⁴²)
- Imposing an obligation that the price should be cost reflective. This could be similar to the basis of charges, or cost orientation obligation that has been applied previously which required (something like): charges must be reasonably

⁴⁰ Many of these points were documented in a letter to **[Redacted]** dated 4 July 2023

⁴¹ Using, say, the cost attribution methodology used for BT's RFS

⁴² So, for instance, if the main cap was CPI-5% and the safeguard was 3% above the main cap the safeguard cap would be CPI-2%

derived from the costs of provision based on a forward looking long run incremental costs, and allowing an appropriate mark up for the recovery of common costs, including an appropriate return on capital employed; and

- Reviewing the pricing for managing Cablelink traffic. Currently Openreach sells Cablelink at 10 Gigabit, which means that as the amount of customer traffic increases on the first 10Gigabit Cablelink and a CP buys a second, if the CP then seeks to balance the traffic, between the two links by redirecting customers onto the second circuit, there is a per Customer Virtual Local Area Network (CVLAN) migration charge. The charge is currently £6.97 per customer⁴³, for what is essentially an automated software change. Experience suggests this is priced far above cost. It also acts as a deterrent for CPs to efficiently manage traffic on their networks. An alternative would be for Openreach to offer a 100 Gigabit Cablelink product, which would significantly reduce the need to order additional circuits to an exchange and reconfigure the traffic.
- Reviewing the FTTP CP – CP Connection Charge and Working Line Takeover Charge (both £3.81) given OR have already zero rated subsequent provide connections (i.e. scenario's where the FTTP kit is already installed in the customer premises). On a CP – CP move or Working Line Takeover the customer already has the correct equipment in their premises. They are just software changes on the OR network.⁴⁴

5.12 Additionally, as per our comments in section 2.46, we believe Ofcom should explicitly set constraints on Openreach, which remove the risk of Openreach potentially gaming Ancillary Service charges. In particular to make it unviable for CPs as part of their leverage for industry-wide Exchange Exit negotiations.

Service Level Guarantees (SLGs)

5.13 Across the Openreach portfolio, the monetary value of a number of Openreach SLGs have not been indexed or reviewed for some years. Many of these 'fixed amount' SLGs have not been looked at in over a decade. It follows, that as Openreach has been able to increase its prices over the last decade to reflect rising costs, the same should also apply to the SLGs Openreach pays to cover CP costs for service failure.

5.14 Examples of SLGs that have not been reviewed in some years (although not an exhaustive list) include:

- **Late Provision SLG** for: MPF, FTTC / GFAST, SOGEA and SOTAP; at £8 per day late.
- **Appointment Availability SLG** for: MPF, FTTC / GFAST, SOGEA and SOTAP; at £2 per day late Days 13 to 15; £4 per day late Day 16 onwards.
- **Openreach Missed Appointment SLG** for: MPF, FTTC / GFAST, SOGEA and SOTAP; at £56 fixed.
- **Dead On Arrival SLG** for: MPF, FTTC / GFAST, SOGEA and SOTAP; at £16 for LLU and £12 for other products.

⁴³ See Openreach [Price List](#)

⁴⁴ See Openreach [Price List](#) We defer to Ofcom whether these are captured in the WLA market analysis or treated as NAS charges.

- **Meaningful KCI Message SLG** for: MPF at £8 fixed; and
- **28-Day Repeat Fault SLG** for: MPF, FTTC / GFAST, SOGEA and SOTAP; at £10 fixed.

- 5.15 Our retail partners have also explicitly asked us to raise the fact that the wholesale Automatic SLG payments from Openreach have not kept pace with the commitment to increase the amounts paid to end-customers in line with CPI, leading to margin erosion.
- 5.16 PXC believes these SLG amounts should be re-rated to consider the increases in prices over the last decade. We are not aware of any counter arguments why they should not be.

6 Use of CPI for Indexation

- 6.1 On a general point, PXC notes that Ofcom is proposing to continue to use CPI as the basic measure of price indexation. Given that in the review period since WFMTR21 inflation has experienced high, temporary spikes in response to global events, we recommend that Ofcom consider a safeguard cap.
- 6.2 In October 2022 inflation peaked at 11.1% before falling back sharply in the following months. However, this was the month that was used to set Openreach prices from the following April. Whilst all organisations faced increased costs it far exceeded the published pay awards in the industry and the assumptions of the WFMTR21. Consequently, the regulation lacked flexibility for review.
- 6.3 We believe Ofcom should have the option to cap CPI increases above 5%, requiring a review before implementation. If sector costs genuinely rise above 5%, the cap may not be applied.

7 Conclusion

- 7.1 PXC agree with Ofcom that it makes sense to re-evaluate the UK Telecoms market and refresh the regulatory framework for the period 2026 to 2031. Market conditions and FTTP roll out has changed markedly since the WFMTR in 2021 and not all the assumptions made then still hold.
- 7.2 We largely welcome Ofcom's proposals and provide evidence to support them. Assuming Ofcom also acts on our suggested amendments we believe there is strong potential for the TAR26 to set a sound basis for regulation for the coming 5 years, benefiting both the industry and consumers.

APPENDIX 1 - Frontier Economics: Assessment of Openreach Profitability

Frontier - Assessment of Openreach profitability

For ease, we paste the specific images of slides we refer to in the PXC submission below.

Image 9

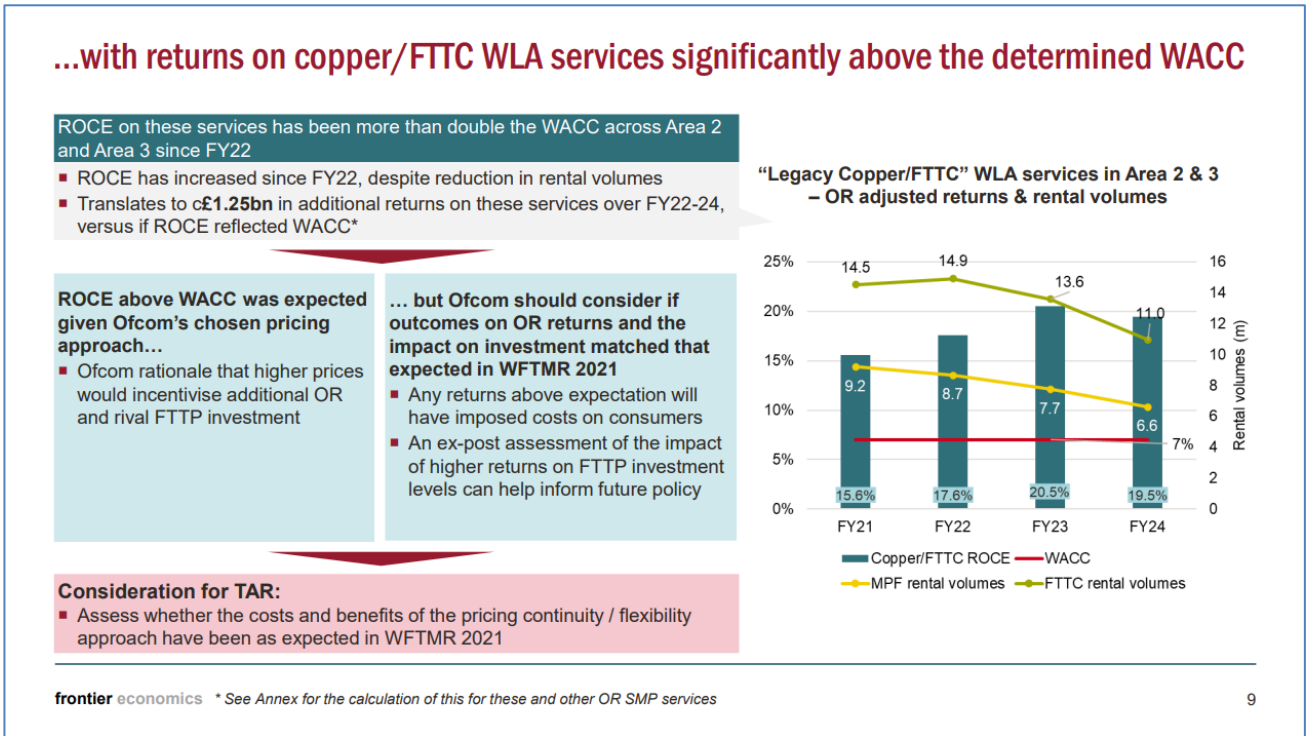
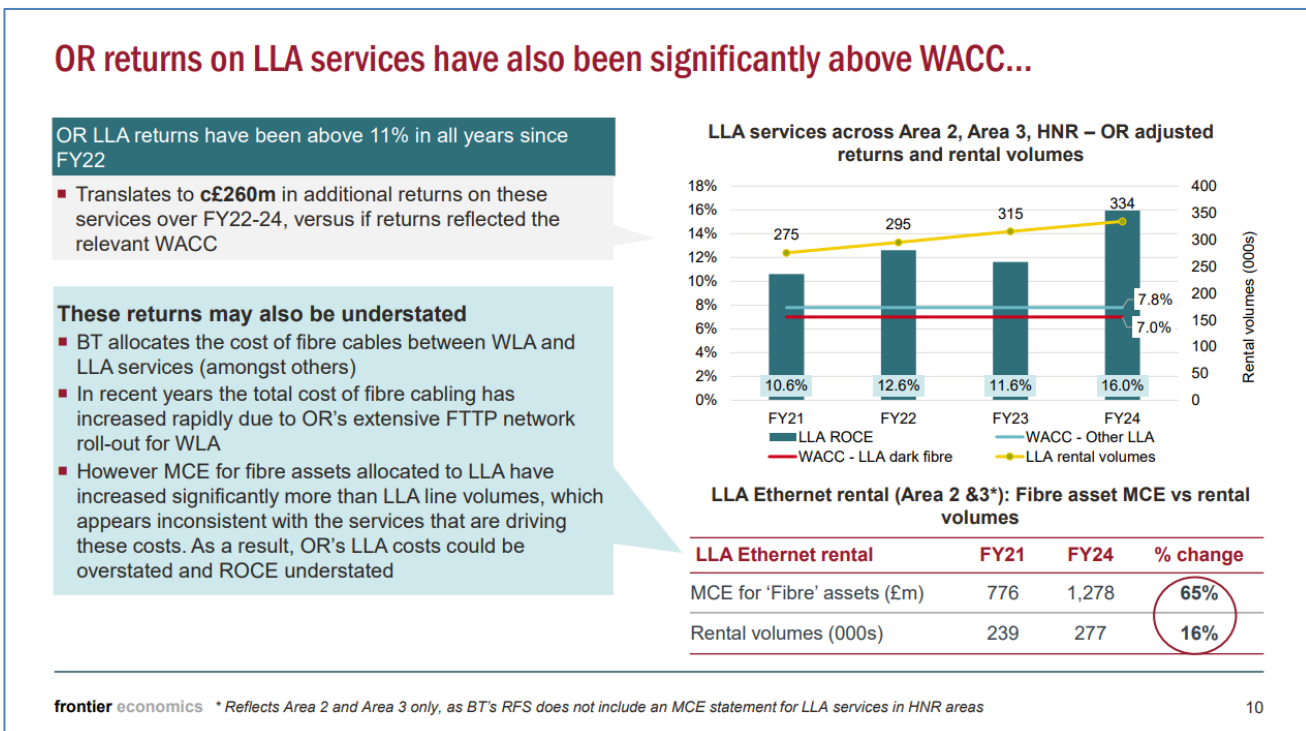


Image10



OR's IEC products report very high returns, including the cost-based charge control on IEC dark fibre products

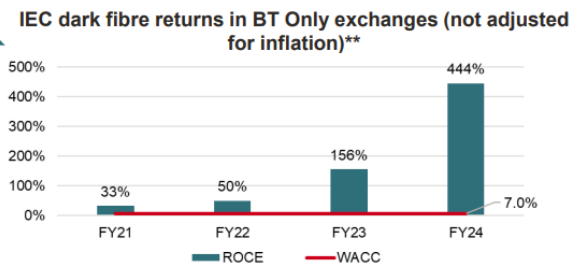
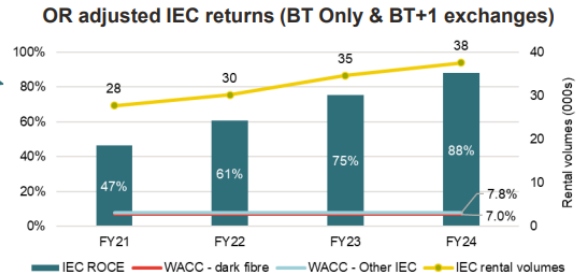
OR IEC returns across BT Only and BT+1 exchanges have been >60% and increasing since FY22, translating to c£290m in excess returns over FY22-24...

- Pricing flexibility was again allowed on Ethernet and optical services with the expectation that this would incentivise incremental rival investment
- It's unclear if there has been material additional entry – BT's exchange closure plan may mean rivals have less incentive to enter, given the likelihood of stranded assets

...(unadjusted) returns on IEC dark fibre services in BT Only exchanges are also high and increasing, despite these being subject to a cost-based charge control*

Consideration for TAR:

- Investigate drivers of excess returns on IEC services, incl. on Dark Fibre
- Assess if the high returns have or will be effective in stimulating incremental investment by rivals
- Consider if the cost models used to determine cost-based prices need to be adjusted



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*BT does not present inflation-adjusted returns for these services, but it's likely returns will still be materially above WACC even with such an adjustment, as BT's inflation adjustments across all IEC products are relatively small (ORs unadjusted FY24 ROCE across IEC markets was 90%, vs 88% with the adjustment)
 ** The returns are calculated based on summing the revenues, opex, and MCE across different dark fibre services in the BT RFS, so could be impacted by rounding. Ofcom should investigate these returns based on underlying unrounded data from BT.

Returns on ancillary services could be evidence that regulation has not prevented an abuse of market power

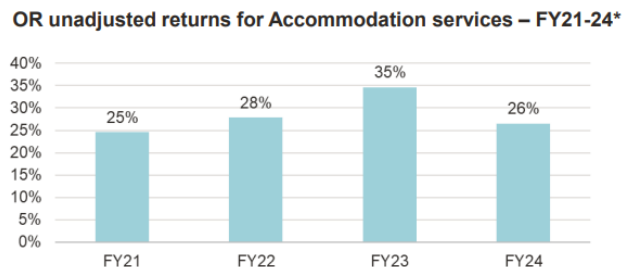
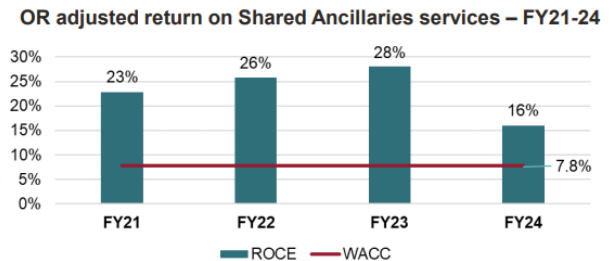
OR returns on Shared Ancillaries are also significantly above WACC, translating to c£80m in excess returns over FY22-24

- OR's unadjusted returns indicate that this is driven by high returns on Accommodation services (which account for the majority of OR's Shared Ancillaries MCE/Revenues)

This could be evidence of abusive behaviour. For example, this could indicate that OR prices are excessive, or have increased returns through reducing quality of service and / or redefining the scope of services

Consideration for TAR:

- Further investigate drivers of excess returns on ancillary services



frontier economics

* BT's made only small inflation adjustments on Shared Ancillaries, so unadjusted returns by service are unlikely to differ significantly from the adjusted returns.
 ** Unadjusted returns in BT's RFS also suggest that OR made very large returns on selected WLA and LLA ancillaries in certain years (e.g. OR ROCE on "WLA Special Faults Investigation" in Area 2 was 200% in FY24, and 50% on "Time Related Charges" in LLA Area 2 in FY23). Ofcom should also investigate drivers of returns on these ancillaries more closely as part of the TAR.