OPENREACH PROPOSED FTTP AND ETHERNET OFFERS

CITYFIBRE RESPONSE TO OFCOM CALL FOR INPUTS

NON-CONFIDENTIAL VERSION

1 Executive Summary and introduction

1.1 CityFibre welcomes Ofcom's publication of a call for inputs ("CFI") on Openreach's latest round of special offers ("the CFI Offers"). The background to the CFI is Ofcom's objective in WLA Area 2 and LLA Area 2 to promote competition in gigabit-capable networks by Openreach and other telecoms providers and to ensure that, as Openreach responds to competition, by virtue of its SMP, it is not able to behave in a way which undermines the longer term development of competition. [1]

1.2 As explained below, CityFibre considers that the CFI Offers are designed to undermine the longer term development of competition. Ofcom recognises in the Telecoms Access Review 2026-31 ("TAR") that if competition is to become established, take up of challenger networks is critical to allow those networks to scale and become strong long-term competitors to Openreach.[2] The CFI Offers provide very significant discounts to ISPs, intended to incentivise them to place orders with Openreach, foreclosing demand from challenger networks.

1.3 Ofcom should be particularly wary of the CFI Offers adversely affecting demand for altnets during a critical period for the development of competition. As set out in the TAR,[3] take-up of new networks "*underpins the ability of altnets to exert a strong competitive constraint on Openreach in the long term, and so for competition to be sustainable*."[4]

1.4 To achieve scale, altnets will require further capital to fund expansion, either through network build or, more likely, consolidation. Take up is a key metric in persuading investors to provide the further investment necessary to provide long term network competition.

1.5 The way in which Ofcom assesses the CFI Offers must not jeopardise the emergence of long term competition at scale:

a. An initial assessment which relies on Ofcom's ability to monitor and intervene at a future point if it considers that the offers are affecting competition in a way which Ofcom had not previously appreciated risks an irrecoverable loss of competition. At that point, the damage will have been done;

b. The methodology which Ofcom uses must ensure that it does not bake in Openreach's incumbency advantages, in particular, when assessing pricing against the fair and reasonable requirement.

1.6 Ofcom must ensure that competition can become established at scale on a sustainable basis. The benefits of competition are already being felt by consumers and Ofcom must ensure that those benefits are sustained.

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1 CFI paragraph 1.4
2 TAR Volume 3, section 1
3 TAR Volume 3, section 1
4 TAR Volume 2 paragraph 4.356

1.7 The remainder of this document is structured as follows:

- Section 2 sets out the context and terms of the CFI Offers;
- Section 3 contains a competitive assessment of the CFI Offers under the following headings:
    - Conditional Offers;
    - Geographic Pricing;
    - Low pricing; and
    - Additional Competition Concerns
- Section 4 provides a conclusion and suggested next steps

2 The Offers

2.1 The CFI covers 4 offers:

- The Incremental New to Openreach Customer Offer ("the Incremental FTTP Offer")
- The Incremental New Openreach Customer Offer in VMO2 Areas ("the VMO2 Offer")
- The Six Month Extension to the Equinox 550 Mb Incentive ("the 550 Extension")
- The Incremental Ethernet Demand Offer ("the Incremental Ethernet Offer")

The Frontbook Offer

2.2 The FTTP Frontbook ARPU Share Offer ("the Frontbook Offer") provides the baseline from which Ofcom should assess the CFI Offers.[5] CityFibre understands that the Frontbook Offer will operate as follows:

- The offer runs from 1 July 2026 to 30 June 2027 and applies to all new orders and bandwidth upgrades for FTTP services during the offer period;
- Where the average ARPU exceeds £19.32/month for orders under the Frontbook Offer, ISPs receive a rebate equal to 100% of the ARPU above that level;
- The ARPU rebate applies for a period of "a minimum" 24 months from the date of order[6], until 30 June 2029; and
- The ARPU threshold of £19.32 will be adjusted by CPI-1.25% (with a floor of 0%) in line with Equinox pricing reviews.

2.3 The effect of the Frontbook Offer is to significantly reduce the prices paid by ISPs for FTTP services. The prevailing prices for FTTP services paid by ISPs are those contained in Openreach's Equinox offer[7] and the Frontbook Offer will mean that ISPs benefitting from the Equinox offer will pay an effective price of £19.32 for all orders at 330Mbps and above, even where the ISP benefits from the full Equinox ARPU Share mechanism.

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5 CityFibre has separately written to Ofcom to state that it considers the Frontbook Offer to be a "conditional offer" subject to 120 day notification

6 The published documentation states that the offer benefits will last a minimum 24 months but no further detail is provided

7 TAR Volume 4, paragraph 1.39

2.4 From 1 July 2026, the effective discounts under the Frontbook Offer are as follows:

Download Speed	Equinox Price	Equinox price with ARPU share	Price after Frontbook Offer applied
40 Mbps	£17.83	-	£17.83
55/80 Mbps	£17.18	-	£17.18
115 Mbps	£17.50	-	£17.50
160 Mbps	£17.94	-	£17.94
220 Mbps	£19.17	£18.97	£18.97
330 Mbps	£20.28	£19.53	£19.32
550 Mbps	£20.61	£19.69	£19.32
1.0 Gbps	£22.76	£20.77	£19.32
1.2 Gbps	£22.76	£20.77	£19.32
1.8 Gbps	£23.83	£21.30	£19.32

2.5 The Frontbook Offer discounts are already substantial, with a discount of up to 17% available. As set out below, the Incremental FTTP Offer goes much further, increasing the level of discounts on offer by up to 60%.

The 550 Extension

2.6 The 550 Extension rolls over a preexisting Openreach offer which reduces the price of 550Mbps services that are new to network to £17.94, the same price as 160Mbps. Since, by definition, all volumes under the Incremental FTTP Offer are new to network volumes, the 550 Extension means that the starting price for an assessment of that offer is £17.94 for 550Mbps services.

The Incremental FTTP Offer

2.7 The Incremental FTTP Offer provides very substantial connection and rental discounts to ISPs for every customer that is “new”[8] to the Openreach network, above a historical baseline of new-to-network volumes. The Offer applies in respect of all FTTP bandwidths and offers a rebate of £35 on connection charges and £9.50 per month on rental charges. The period over which the rental charge rebate applies is dependent on the extent to which an ISP overperforms against its historical baseline

8 New to Openreach means any connection to a premise where no Openreach products or services have been provided on the relevant connection in the previous 90 day period

of new-to-network volumes, with rebates lasting for 30 months where an ISP outperforms the baseline by over 10%.

2.8 The way in which Openreach discounts operate is complex and it is difficult to assess the effective price payable by individual ISPs. That price will depend upon the interaction of multiple offers, in particular the Equinox ARPU share mechanism and the Frontbook Offer. However, if an ISP is taking advantage of both the Equinox offers (including the 550 Extension and the ARPU share mechanism) and the Frontbook Offer, the effective amount it will pay per new-to-network connection above the baseline is:

Rental

Download speed (Mbps)	***Price after Frontbook Offer and 550 Extension***	***Price after Incremental FTTP Offer***
40	£17.83	£8.33
80	£17.18	£7.68
115	£17.50	£8.00
160	£17.94	£8.44
220	£18.97	£9.47
330	£19.32	£9.82
550	£17.94	£8.44
1000	£19.32	£9.82
1200	£19.32	£9.82
1800	£19.32	£9.82

New to Network Connection charge

	Equinox price	***Price after Incremental FTTP Offer***
Area 2	£32.07	-£2.93
Area 3	£127.26	£92.26

The VMO2 Offer

2.9 The VMO2 Offer acts as an overlay to the Incremental FTTP Offer and provides an additional £50 rebate for incremental new to network connections in VMO2 areas. As set out in the TAR, areas where VMO2's network is present fall within Area 2. The effect of the VMO2 Offer is therefore to reduce the connection charge payable for incremental new to network connections in a subset of Area 2 to £-52.93, effectively a bounty payment for each incremental customer.

The Incremental Ethernet Offer

2.10 The Incremental Ethernet Offer reduces connection charges to zero for all EAD 100Mb and 1Gb volumes above a baseline, which is set at 90% of an ISP's Ethernet volumes in the previous year. In LLA Area 2, this represents a discount of up to £2,127 per connection. Over a typical 36 month customer lifetime, the Incremental Ethernet Offer therefore reduces the total cost of ownership for incremental customers by 28%.

3 Competitive Assessment

3.1 The CFI invites stakeholders to provide initial views on the CFI Offers to assist Ofcom in forming a provisional view on whether:[9]

- the CFI Offers which are conditional raise competition concerns requiring *ex ante* intervention;
- the VMO2 Offer raises competition concerns such that Openreach's application for consent to implement geographic pricing where this would be otherwise prohibited should or should not be granted; and
- whether the CFI Offers raise concerns about low pricing in relation to Openreach's requirement for charges to be fair and reasonable.

3.2 CityFibre sets out below its concerns with the CFI Offers under each of those heads and considers that Ofcom must consult fully on each of those offers.

(a) Conditional Offers

(i) Introduction

3.3 The TAR set out a framework for the consideration of commercial terms that are conditional on the volume and/or range of services purchased. That framework is designed to address concerns that Openreach could, as a result of its SMP, use pricing or other commercial terms to undermine the development of competition in the longer term, particularly through the use of terms which induce loyalty from ISPs.[10] The TAR references, in particular, terms which "*mean in effect telecom providers cannot use rival networks for any meaningful volumes without losing those discounts.*"[11]

3.4 Ofcom considers Openreach to be in a unique position to use commercial terms to influence competition since it is the only national network and continues to enjoy significant incumbency advantages which it can leverage through the design of commercial terms.[12]

3.5 The starting point for conditional terms is that the creation of *any* barrier to using rival network operators will only be justified where:[13]

- the impact on network competition is unlikely to be material; and
- the arrangements will generate clear and demonstrable benefits, such as (a) the arrangements are essential to Openreach's business case for full fibre

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9 CFI paragraphs 1.29 and 1.30
10 TAR Volume 3, paragraphs 9.154 to 9.158
11 TAR Volume 3, paragraph 9.156
12 TAR Volume 3, paragraph 9.157
13 TAR Annex 8, paragraph A8.68

rollout; or (b) the arrangements are necessary to offer more efficient prices that would deliver benefits for consumers.

3.6 In accordance with the framework set out in the TAR, Openreach must demonstrate that the impact on network competition is unlikely to be material and that there are demonstrable benefits from any conditional offers. However, the justifications put forward by Openreach[14] are perfunctory and lack specificity. In particular, the benefits of the offers claimed by Openreach amount to a single sentence and include claims which are demonstrably false. In those circumstances, where the potential impact of the offers on competition is significant, Ofcom should err on the side of caution and not permit the offers to proceed.

(ii) The Incremental FTTP Offer

3.7 The discounts contained in the Incremental FTTP Offer are designed to provide powerful incentives for ISPs to place volumes with Openreach at the expense of its emerging competitors. Rental prices are [✂] and connection charges in areas where Openreach faces competition are negative, meaning that ISPs will receive an incentive payment if they drive incremental volumes to Openreach.

3.8 The offer is designed to "*drive incremental new customer wins*",[15] necessarily at the expense of altnets. Whilst it is difficult to predict what level of volume loss may occur, in the absence of the offer, those orders would have been placed with altnets. The discounts therefore create a barrier to the use of altnets which, as set out below, altnets are unable to overcome without pricing at a loss.

3.9 Openreach argues that the use of a baseline prevents the Incremental FTTP Offer from creating barriers to using alternative networks. However, the opposite is true. ISPs benefit from discounts for a longer period the greater the volume of new-to-network orders it places above the baseline.[16] This makes it materially harder for altnets to contest demand at the margin by magnifying the loyalty inducing properties of the offer as ISPs face particularly strong incentives to place new-to-network orders with Openreach

3.10 CityFibre further notes that those ISPs that have volumes of less than 1,000 new-to-network customers per month will have no baseline applied. Every new-to-network customer will benefit from the full extent of the discounts offered in the Incremental FTTP Offer. ISPs with low levels of new-to-network volumes will typically be those that primarily place orders with altnets and it is those ISPs that will be particularly incentivised to switch demand from altnets to Openreach.

3.11 If the Incremental FTTP Offer is approved, the prices that altnets will need to offer ISPs to contest incremental demand are very low and unlikely to be economically rational. As CityFibre has set out to Ofcom previously, Openreach's strong

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14 Offers_notified_by_Openreach_1_June_2026_online.pdf
15 Openreach_OffersUpdate_070526_online.pdf
16 An ISP exceeding the baseline by up to 5% will obtain discounts for 18 months, by 5-10% for 24 months and above 10% for 30 months

incumbency advantages mean that it is not enough for altnets to merely replicate Openreach's pricing. To win customers, altnets need to discount significantly against Openreach's charges.

3.12 In addition, altnets typically have high levels of overlap with the VMO2 network and business plans will be based upon winning a significant proportion of customers from VMO2. The Incremental FTTP Offer incentivises ISPs to place orders won from VMO2 with Openreach at the expense of challenger networks.

3.13 Any offers which target new-to-network connections will therefore have a double effect on altnets with ISPs incentivised to switch customers from altnets whilst at the same time limiting altnets' ability to win customers from VMO2. Demand which is switched to the Openreach network in this way will typically be foreclosed for at least the minimum retail contract period, typically two years. The ensuing harm to the development of sustainable wholesale competition is clear.

3.14 The use of a baseline and rewarding ISPs for incremental volume means that altnets will be disproportionately affected. Existing new to network volumes on the Openreach network are likely to be those which an ISP wins from VMO2 in areas where Openreach is the only wholesale option. Those volumes will form an ISP's baseline and will not benefit from the discounts in the Incremental FTTP Offer.

3.15 The only obvious way to increase volumes above the baseline is therefore to divert volumes that would otherwise have been placed with altnets to Openreach. [✂] The offer therefore has a disproportionate effect on altnets.

3.16 Discounts of nearly 60% over a period of up to 30 months are so significant that they will be sufficiently attractive to overcome concerns that switching networks during customer lifetime will risk churn. It is likely that ISPs will risk placing orders with Openreach for the period of the offer and [✂]. Given Openreach's approach to discounting more generally, there is also a reasonable chance that, if Ofcom allows the Incremental FTTP Offer to proceed, the offer will be extended.

3.17 Importantly, the Incremental FTTP Offer is unlikely to benefit consumers. Whilst there are significant incentives for ISPs to take up the Offer and benefit from large discounts on wholesale prices, it is unlikely that ISPs will pass those discounts on to consumers as the Offer does not reduce the ongoing marginal cost ISPs face per customer when they sign up customers.

3.18 Rather, assuming the ISP exceeds the baseline, the ISP receives a future lump sum rebate based on its relevant Openreach volumes as a whole over the relevant period. The total rebates paid by Openreach also depend on whether the ISP hits triggers across various live offers. This structure makes it materially less likely that the ISP will factor the various potential rebates into its pricing decisions than if Openreach had adopted a straightforward reduction in the ongoing marginal cost per customer that ISPs face at the point of sale.

3.19 The most likely effect of the rebates is therefore to increase ISP profits, rather than lower consumer prices, further reinforcing the incentives for ISPs to ensure that they secure the maximum discounts available. Even if it were the case that consumers experienced a short-term pricing benefit, such benefits need to be seen in the context of the harm to long-term network competition.

(iii) Incremental Ethernet Offer

3.20 As Ofcom recognises in the TAR, consistent with its SMP, Openreach enjoys significant advantages in the provision of leased line services through its network of ducts and fibre which other operators will need to be able to replicate to serve existing Openreach customers.[17] For leased line customers, there is a cost associated with switching away from Openreach in terms of risk and the time taken to establish a new connection through the building of duct and fibre.

3.21 Entrant networks such as CityFibre therefore need to offer a significant price differential to compensate leased line customers for that cost. Openreach faces no such barriers when seeking to win customers from CityFibre. With an established, national duct and fibre network, switching to Openreach is risk free and can be done without the need for infrastructure build.

3.22 The Incremental Ethernet Offer erodes any pricing advantage required to overcome Openreach's incumbency advantages which CityFibre and others may have had previously. Over a typical 36 month customer lifetime, [✂]. Those incremental volumes will necessarily come from Openreach's emerging competitors.

3.23 The effect of the Incremental Ethernet Offer is therefore to directly target the customers of CityFibre and others that compete with Openreach for leased line customers. The scale of those discounts are so significant that any economically rational operator would place orders with Openreach rather than its competitors. Such an offer therefore directly creates a barrier to the use of altnets which will undermine the emergence of competition.

(b) Geographic Pricing

3.24 The VMO2 Offer amounts to a geographic offer which is subject to Ofcom consent under SMP Condition 4. If Ofcom is minded to grant its consent to the VMO2 Offer, it should issue a consultation in accordance with the procedure set out in the TAR.[18]

3.25 As set out in the TAR,[19] geographically targeted pricing in VMO2's established footprint is unlikely to negatively impact the long term competitive constraint that VMO2 exerts on Openreach. However, where such pricing negatively impacts altnets, the effect of such geographically targeted offers will harm the long term development of competition. Altnets have high levels of overlap with VMO2 since those areas are typically more dense urban locations where the economic rationale for FTTP build is stronger. CityFibre's network, for example, is [✂] overlapped by VMO2.

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17 TAR Volume 2, paragraph 5.439
18 TAR Volume 3, paragraph 9.148
19 TAR Volume 3, paragraphs 9.98 and 9.99

3.26 The VMO2 Offer as currently structured will accentuate the competitive impact of the Incremental FTTP Offer by providing a further £50 rebate on new to network connections in VMO2 areas, resulting in an effective bounty payment of £52.93 to ISPs for every incremental new to network connection. The same competition concerns as those set out above in relation to the incentive properties of the Incremental FTTP Offer will apply when the cumulative effect of the full suite of Openreach offers is taken into account.

3.27 In any consultation process, it is important that Openreach is made to provide detailed justifications for the VMO2 Offer and should explain why the offer will not undermine the development of sustainable wholesale competition.

(c) Fair and Reasonable Pricing

3.28 In the TAR, Ofcom set out concerns that Openreach may set prices at a level at which its competitors could not compete. Ofcom imposed a requirement on Openreach for its prices for FTTP products in Area 2 to be fair and reasonable at all times.[20] That requirement is "*interpreted to mean Openreach should not set prices that leave an insufficient margin between its weighted average FTTP price and PIA prices.*"[21]

3.29 In determining whether Openreach FTTP pricing raises *prima facie* concerns under the fair and reasonable requirement, the starting point is how Openreach's prices compare to Ofcom's estimate of a reasonably efficient operator's ("REO's") costs derived from the 2026 Fibre Cost Model.[22] The TAR sets out that this is not a bright line test:[23]

> *"We do not intend for any comparison of Openreach's FTTP prices with the REO cost range to be a bright line test. Given the wide range of costs, we would look at where Openreach's average price sits relative to the range. We are more likely to have concerns where prices are at the mid to lower end of the range."*

3.30 The outputs of the 2026 Fibre Cost Model are in the range of £13.30 (low-cost scenario) to £20.76 (high-cost scenario), well above the unit prices under the Incremental FTTP Offer which are in the range £7.68 to £9.82, as set out above. At face value, that pricing raises *prima facie* concerns.

3.31 In the case of Openreach's proactive upgrades special offer,[24] Ofcom set out that it had considered the potential impact of that offer on Openreach's average FTTP price and how this compared to the outputs of the 2026 Fibre Cost Model. In that case, Ofcom took a broad portfolio approach to its assessment focussed on Openreach's

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20 SMP Condition 1.3

21 TAR Volume 3, paragraph 4.46

22 TAR Volume 4, paragraph 1.172

23 TAR Volume 4, paragraph 1.178

24 https://www.ofcom.org.uk/siteassets/resources/documents/phones-telecoms-and-internet/information-for-industry/fairness-for-customers/open-letter-to-industry-openreach.pdf?v=405640

entire FTTP base and new Openreach connections, based upon forecasts of new connections.

3.32 CityFibre considers that, in this case, given the very significant incentive effects of the Incremental FTTP Offer (particularly in combination with other discounts including the Frontbook Offer), taking a broad portfolio approach across the entire Openreach FTTP customer base would not be consistent with the policy goals underpinning Ofcom's *ex ante* framework. If applied in this case, Ofcom would not be able to properly test whether Openreach's latest offers are consistent with a reasonably efficient operator being able to replicate Openreach's pricing in a manner that is consistent with promoting sustainable network competition. An alternative approach which allows Ofcom to properly address its policy goals and therefore its statutory duties is therefore required in this case.

3.33 The adoption of an alternative approach is consistent with Ofcom's position in the TAR. While setting out that it would look at "*how Openreach's FTTP prices compare to our estimate of a reasonably efficient operator's costs derived from the 2026 Fibre Cost Model*"[25] Ofcom also recognised that there would be "*several methodological choices*" that it would need to decide on when applying the 2026 Fibre Cost Model. [26] Ofcom set out as examples:

i. **Product scope**: Ofcom needs to assess the appropriate output increment for the comparison of Openreach's FTTP prices and the REO cost range. Ofcom set out in the TAR that it would typically expect to adopt a portfolio approach which considers a weighted average margin across all of Openreach's FTTP products.

ii. **Base for calculating weighted averages**: This will depend on the circumstances of the assessment but could include calculating the mix using only the group of customers that are eligible for the discount but at its widest could involve the mix being calculated using Openreach's total customer base.

iii. **Relevant period**: In margin squeeze cases, Ofcom would typically use the average customer lifetime but for practical purposes it may consider a shorter period if the level of margin is unlikely to change over time.

3.34 In deciding on the right methodological approach, Ofcom should be guided by the regulatory objectives that underpin its *ex ante* regulatory framework; the promotion of sustainable network competition. This means that the test Ofcom adopts needs to be capable of properly assessing whether Openreach's pricing is consistent with a reasonably efficient operator having the opportunity to compete in the WLA market while recovering its costs.

3.35 Reliance on competition law alone to achieve this is not sufficient since it is less effective than *ex ante* regulation in promoting (as opposed to protecting)

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25 TAR Volume 4, paragraph 1.172
26 TAR Volume 4, paragraph 1.179

competition.[27] Consistent with this, in its Equinox 2 decision[28] Ofcom set out that the *ex ante* framework was designed to place "*much tougher limits*" on Openreach's pricing flexibility than would arise under competition law.

3.36 In deciding on the right methodological choices, it is critical that Ofcom does not adopt an approach that would allow Openreach to be able to leverage the substantial legacy advantages it has over altnets to the detriment of competition. If Ofcom were to apply in this case the portfolio approach across Openreach's total FTTP customer base it would risk making such an error. For example:

a) By including Openreach's entire FTTP portfolio and customer base when calculating average charges, Ofcom would allow Openreach to leverage its **extensive and unrivalled FTTP footprint** (which stems from its incumbency advantages). This is because including the higher charges Openreach can set in areas where it does not face competition, Ofcom would allow Openreach to offset lower charges in areas where sustainable network competition is feasible. The result is that Openreach would be able to set charges in areas where it faces competition that would not be replicable by a reasonably efficient operator. In practice, the new-to-network offers only apply in areas where Openreach faces competition – the risks to competition of Ofcom adopting average FTTP charges across Openreach's entire FTTP customer base are therefore clear.

b) By including Openreach's entire FTTP portfolio and customer base Ofcom also risks allowing Openreach to leverage its **larger installed backbook of higher price customers**. Given its incumbent position, Openreach enjoys a larger backbook of customers on its network than altnets through its ability to migrate customers from its copper network. Further, Openreach's wholesale charges have reduced considerably over recent years, which means that across Openreach's backbook there will be different cohorts of customers whose terms reflect different and higher priced legacy offers. Openreach's incumbency position affords it backbook advantages that altnets do not have access to. As a result, if Ofcom averages Openreach's charges across its entire FTTP customer base, it risks allowing Openreach to leverage its larger and more valuable backbook to set frontbook charges that are not replicable by a reasonably efficient altnet.

c) In addition, **not all customers are contestable.** For example, not all customers engage actively with the market. Ofcom's report on switching in the UK communications sector[29] identifies that only 66% of fixed broadband customers are active or browsers.[30] Given its legacy position, Openreach disproportionately benefits from such customers. This compounds the backbook issue set out above because, not only does Openreach disproportionally benefit from its backbook, but a substantial proportion of those higher value customers are not contestable.

d) Further, **Openreach is likely to benefit from a longer average customer lifetime** than altnets because it will have a higher proportion of customers on its

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27 TAR Volume 2, paragraph 3.109
28 Equinox 2 Final Decision, paragraph 3.20
29 Ofcom, *Pricing and consumer engagement :Trends in the UK communications sector*, 26 February 2026
30 Figure 8

network that are inert than altnets. Therefore, using Openreach's average customer lifetime to spread upfront costs or discounts, for example, would result in a price that would not be replicable by a reasonably efficient operator. CityFibre considers that, in practice, a reasonably efficient operator would likely need to price in a manner that assumes a customer switches (either to a new offer or alternative network) at the end of the offer period.

3.37 In CityFibre's view, such considerations mean relying on an assessment based on Openreach's average charge across its entire FTTP base and portfolio would not be capable of assessing whether Openreach's offers are replicable by a reasonably efficient operator. It would not provide the "*much tougher limits*" on Openreach's pricing flexibility that Ofcom referred to in the Equinox 2 decision.

3.38 Rather, Ofcom's assessment in this case needs to assess the (cumulative) offer-specific prices against the outputs of the 2026 Fibre Cost Model. Such an approach would mean that Openreach would not be allowed to leverage its monopoly position in parts of the country, or certain other incumbency advantages it enjoys, to undermine competition for contestable demand. It would allow Ofcom to assess whether Openreach's pricing is consistent with reasonably efficient rivals being able to compete for contestable demand today. As set out above, the information available to CityFibre suggests that those relevant prices are so far below the outputs of the 2026 Fibre Cost Model that it would be surprising if they did not raise *prima facie* concerns.

3.39 In calculating an average charge Ofcom will likely need to use demand forecasts. For example, it may be that Ofcom chooses to calculate an average offer price across all the relevant bandwidths that it applies to. In doing so, Ofcom should adopt a precautionary approach reflecting the asymmetric risks to consumers from assessment errors. Assessing the future effect of offers on demand is inherently uncertain. The objective of the CFI Offers is to change purchasing behaviour which makes assessing the likely nature and scale of demand reactions difficult to predict. Ofcom's assessment must appropriately reflect this uncertainty. For example, it must not rely on Openreach forecasts without taking appropriate steps to assess their robustness and consider reasonable alternative scenarios.

3.40 CityFibre considers that these offers provide an important opportunity for Ofcom to clarify how it will approach Openreach offers over the TAR period, in particular, the approach it will adopt to applying the outputs of the 2026 Fibre Cost Model to Openreach's pricing. The possibility of competition emerging at scale remains and it is incumbent on Ofcom to adopt an approach which ensures that reasonably efficient altnets can compete against Openreach offers.

3.41 Ofcom rightly set out in the TAR why it is not sufficient to rely on competition law enforcement alone to promote network competition. It must now follow through on that by ensuring that its approach to assessing Openreach offers is fully consistent with a reasonably efficient operator having the opportunity to compete in the WLA market while recovering its costs.

(d) Additional Competition Concerns

3.42 The Frontbook Offer, the Incremental FTTP Offer and the Incremental Ethernet Offer introduce very significant discounts for volumes purchased from Openreach. However, those offers are specified to be time limited, so creating a cliff edge effect for ISPs where they potentially face a sharp increase in pricing at the end of the offer period. Openreach can use this cliff edge to incentivise ISPs to continue to place volumes with Openreach to convince Openreach to extend the period of the offers.

3.43 That this is the case is particularly apparent in the case of the Frontbook Offer where discounts are specified to apply "for a minimum of 24 months", implying clearly that the offer may be extended. Openreach would only extend that offer if it were producing benefits for Openreach through increased volumes. ISPs will be fully aware of this and will therefore divert resources to placing orders with Openreach to ensure the continuation of the offer.

3.44 In CityFibre's experience, this is particularly common with Openreach offer structures. The GEA Offer,[31] for example, was rolled over multiple times. As CityFibre has previously set out to Ofcom, [✂].

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31 Price List

4 Conclusion and Next Steps

4.1 The CFI Offers, combined with the Frontbook Offer, provide strong incentives for ISPs to divert volumes from altnets onto the Openreach network. The emergence of competition at the network level is at a critical juncture and Openreach offers which jeopardise take up of challenger networks risk undermining the policy objectives which Ofcom set out in the TAR.

4.2 Ofcom should proceed with caution in assessing the CFI Offers. By making demand for challenger networks uncertain, the CFI Offers will undermine not only the ability to secure take up but also the ability to raise finance to expand and exert a competitive constraint on Openreach for the long term.

4.3 An initial assessment which relies on Ofcom's ability to monitor and intervene at a future point risks an irrecoverable loss of competition. At that point, the damage will have been done.

4.4 Further, any assessment must ensure that it takes full account of Openreach's incumbency advantages. When considering altnets ability to compete, Ofcom's assessment must recognise that they do not enjoy the same advantages.

4.5 CityFibre considers that Ofcom should issue a consultation on a preliminary view for all of the CFI Offers. In developing that view, Ofcom should adopt a precautionary approach. Long term competition is yet to be established. CityFibre considers that the CFI Offers reflect Openreach's ability and incentive, by virtue of its SMP, to undermine that longer term development of competition and Ofcom should take action accordingly.