Grain

2026-06-19

Response to Ofcom's consultation on Openreach's proposed commercial offers

Summary

Grain Connect ("Grain") submits that Openreach's front-book pricing is unfair and unreasonable and will have anti-competitive effects on new entrants providing FTTP products in the relevant WLA market in contravention of Openreach's SMP obligations, and that Ofcom should exercise their powers to prohibit them. Openreach's front-book pricing is exacerbated by its connection charge discount in VMO2 areas.

In addition, Openreach's price cap offer is a conditional offer which should have been notified under its SMP Conditions and Ofcom should prohibit its implementation until the proper notification and consultation process has been undertaken.

Introduction to Grain

Grain does not compete as a supplier, nor does it buy products as a customer, in the relevant WLA market. Nor do we buy Openreach's upstream PIA products (other than in exceptional circumstances). We believe we are the most cost-efficient vertically-integrated new entrant among UK fibre networks, albeit a relatively small one, with 340k premises passed. We are generally supportive of Ofcom's approach to promoting competition and investment in the roll-out of fibre networks in the UK. As such we are a reasonably objective commentator on Openreach's proposals without significant self-interest beyond a general commitment we share with Ofcom to fair competition.

Incremental new to Openreach Customer Offer (ACCN OR1108) and Incremental New to Openreach Customer offer in VMO2 areas (ACCN OR1109)

Unfair and unreasonable front-book pricing

The competition problem with Openreach's front-book pricing is that it exploits two basic asymmetries between incumbents and new entrants. First, the incumbent, Openreach, has a large installed base and relatively small flow of customers new to the network. Any new entrant, by definition, has a relatively small installed base and a relatively large flow of new customers. Front-book pricing exploits this asymmetry by imposing a discount on new customers which will be disproportionately felt by new entrants, while protecting the ARPU generated from the installed base, which will be disproportionately felt by the incumbent. Second, new entrants must price below Openreach in order to persuade ISPs to connect customers to their network. So, the discount will have a higher proportionate effect on new entrants than on Openreach itself.

The following model illustrates the point. (No non-public information is available to or used by Grain for this model. Ofcom will of course be able to access the correct details, but the basic economic point applies whatever the actual numbers are.)

	FTTP lines (000s)	Installed connect-ions (000s)	New connect-ions (000s)	ARPU (£/month)	New ARPU (£/month)	Average APRU (£/month)	Impact of discounts
Openreach	25,000	10,000	1,000	18.40	5.36	17.21	-6.4%
New entrant	4,500	1,000	360	15.40	2.36	11.95	-22.4%

In this illustration of the impact in VMO2 areas, by targeting price competition on front-book prices and by discounting connection charges Openreach imposes a loss of revenue on the new entrant more than three times the loss it suffers itself. This is a breach of its obligations for fair and reasonable prices, as explained further below.

While one can plug in a variety of numbers into a simple model like this, the basic result is driven by two invariant facts: Openreach has higher customer penetration than any new entrant; new entrants must offer products at lower prices than Openreach to attract customers.

We have made the following assumptions.

- We are not purporting that this model is an accurate representation of reality: it is an illustration. This is broadly an annual model relevant to competition in VMO2 areas.
- Numbers for Openreach reflect approximately their current scale of network and customer base. Average FTTP ARPU is estimated from BT Group's published KPIs for Openreach for 2025-26.
- We are assuming that penetration of Openreach's network grows by 2% a year approximately as it did in the previous year.
- We are assuming that that the connection charge rebates (£35 plus £50 in VMO2 areas) would be amortised over 2 years by both Openreach and the new entrant and that the new entrant would need to offer some value to its ISP customers equal to the discount in order to sustain its competitive position against Openreach.
- The new entrant is broadly scaled as if it were CityFibre, but we have no non-public information about CityFibre.
- We are assuming that the new entrant grows its customer base at a rate of about 30k customers a month, as CityFibre appears to have done in the previous year.
- We are assuming a discount of about £3 a month that the new entrant must offer relative to Openreach's pricing, which is necessary to persuade ISPs to connect customers to the new entrant rather than to Openreach (but about which we have no non-public information).

One can question all the assumptions, but the message is clear. Front-book pricing disproportionately affects new entrants.

The anti-competitive effects are in reality worse than this for the following reasons.

- Openreach's discounts are for longer than one year. The incentive effects built into the offer, increasing the discount period to 24 months for over 5% increase and to 30 months for over 10% increase exacerbate the inherent anti-competitive effects noted above.
- While the above is modelled on one new entrant, in reality all new wholesale entrants will be affected in a similar way. Smaller new entrant wholesale operators will suffer even greater adverse effects owing to their lack of scale.

- New entrant competition is concentrated in VMO2 areas: by targeting its additional connection charge discount in these areas, Openreach shields its average revenues in non-VMO2 areas.
- Such a change in the principles of pricing in the wholesale market will necessitate changes in the basic assumptions in the forward-looking business models of new wholesale entrants affecting all future years, on which new entrants have raised equity and debt finance.
- Such a profound and unanticipated change in market pricing practices may put new entrant wholesale operators at risk of breaching their banking covenants, a risk that BT Group does not face.
- Many of the financing programmes of new entrants will come up for review in precisely the period over which these discounts will apply, exacerbating their anti-competitive impact.

Under these proposed changes Openreach is specifically targeting the offer at the front book, which is the consumer switching market. Openreach is proposing to set its FTTP prices in the switching market at a level that undermines the opportunity for a reasonably efficient operator to recover its costs, harming the development of competition, which would be detrimental to consumers in the long term, forcing competitors to sell below cost in order to be able to compete with Openreach

Under these proposed changes Openreach is planning to sell below cost in the switching market, exploiting the benefits of the cashflows generated from its SMP operations, to undermine the business models of its competitors.

Obligations on Openreach

Ofcom rightly decided to impose an obligation on Openreach that its network access charges must be fair and reasonable (as explained in vol.3, 4.43) and must not equate to a price squeeze. Openreach is in breach of this obligation both because the discounted prices are a price squeeze, as explained below, and because adverse pricing that affects new entrants more than the incumbent is in itself a breach of the obligation.

Ofcom stated (vol.3, 4.44) that its assessment would "depend on the relevant facts of the case." The relevant facts of the case concern Openreach's front-book pricing, a practice not considered explicitly by Ofcom in its statement. These front-book discounts should be assessed separately as they are the prices at which competition would operate if permitted. They should not be assessed on the basis of average prices across front-book and back-book, because the back-book is irrelevant to competition conditions at which customers will be recruited in the market.

In a plain English understanding of the terms "fair and reasonable" it is not fair and reasonable to engage in pricing practices which impose greater loss of revenue on new entrants than incurring itself. This fact set was perhaps not envisaged when Ofcom was preparing its statement. Ofcom has reasonably given itself the regulatory freedom to interpret the obligation in this way in the light of the facts as it has found them, as made clear in the statement.

In volume 3 paragraph 4.46, Ofcom states that it would consider a price squeeze as between Openreach's weighted average FTTP prices and PIA input costs for a reasonably efficient operator. The relevant weighted average prices are those subject to the discount, that is across all product speeds, because those are the products affecting competition in the market, not the weighted average between front-book and back-book, because back-book prices are not determining the conditions of competition in the market. While Grain is not a user of PIA inputs and not a competitor in the WLA market, we anticipate that a reasonably efficient PIA operator will not be able to make a sufficient margin, or any margin at all most likely, competing against these front-book prices. The continuing practice of such front-book discounts would undermine new entrants' business plans and thus put them at risk of breaching the covenants in financing facilities, undermining investment in the sector.

We also submit that Ofcom decided to restrict Openreach's ability to discriminate through geographically targeted price reductions. Specifically, SMP Condition 4.1 prohibits Openreach from unduly discriminating in relation to the provision of network access, except where Ofcom consents (referred as the "general prohibition on undue discrimination"). SMP Conditions 4.4 to 4.7 make further specific provision in relation to Openreach charging different prices in different geographic areas within WLA Area 2 or LLA Area 2 (referred to as the "geographic discrimination prohibition"). ACCN OR1109 sets a dangerous precedent of allowing Openreach to discriminate in markets where is can abuse its significant market power to undermine competition before the new entrants have created long term sustainable business models.

Openreach's other pricing notifications

We are not commenting on Openreach's other pricing notifications (ACCN OR1105 or ACCN OR1110), not because we are content with the competition effects of these notices. In the case of the Ethernet offer, we are not active in the relevant market at any level of the value chain.

We submit that Openreach's proposed ARPU cap of £19.32 per month is also a conditional offer, clearly conditional "on the volume and/or range of services purchased" as specified in SMP Condition 8.6. The condition that must be met in order to qualify for the cap is the purchase of products for which the charges are more than the cap. As such, Ofcom should prohibit the implementation of this price cap until the mandated notification period and associated consultation have taken place.

It is central to Ofcom's strategic objectives that competition to Openreach should be encouraged. Competition from alternative network operators is fragile, as Ofcom has noted in the past. New entrant competition is concentrated in the areas where Openreach and VMO2 overlap. Openreach's proposed price discounts for monthly rentals and connection charges will have effects diametrically opposed to Ofcom's regulatory objectives.

Grain Connect
19th June 2026