Consent request under SMP Condition 4.1 to introduce an offer for the supply of New to Openreach FTTP services in postcodes where VMO2 services are available

1 June 2026

This response has been provided on the basis that it will only be used for the purpose of Ofcom's assessment of our proposed commercial offers and for no other purpose, unless otherwise agreed in writing by Openreach.

Introduction

1. Openreach is notifying a pricing offer for the supply of incremental New to Openreach Fibre to the Premises (FTTP) services in a subset of UK postcodes where we have identified, based on public sources, that Virgin Media O2 (VMO2) is supplying retail broadband services (the VMO2 Offer). The objective of the offer is to incentivise our wholesale Communications Provider (CP) customers to increase the volumes of New to Openreach FTTP orders placed in these areas. CPs would receive a rebate payment of £50 for all New to Openreach FTTP lines connected in this area in the offer period that were above a CP-specific pre-set baseline.
2. The terms of the VMO2 Offer are conditional on the volume of services purchased. We have therefore notified this offer on 120 days' notice as required by SMP Condition 8.6 with the offer starting on 1 October 2026. The offer will run for six months with an option to extend for an additional six months depending on CP response and offer effectiveness.
3. SMP Condition 4.5, set following Ofcom's 2026 Telecoms Access Review (TAR), states that Openreach "*may be deemed to have shown undue discrimination if… it charges different prices in different geographic areas for […] rental services…or […] Connection Fees*" for the provision of FTTP in postcode sectors falling within the defined "WLA Area 2".
4. Over 90% of the postcodes covered by this offer fall within WLA Area 2. The proposed offer would therefore result in different prices in different geographic areas within WLA Area 2. (To be clear, the offer will also apply in some postcodes falling within WLA Area 3, but the TAR removed any direct restrictions on geographic pricing in that geographic area.)
5. As such, we are seeking consent under SMP Condition 4.1 for the VMO2 Offer to take effect on 1 October 2026. The notification of the offer to industry makes it clear that the offer terms will only take effect if that consent is given.
6. This submission requests consent following the process and guidance set out in the TAR Statement at Volume 3, section 9 and in Annex 8. In this submission, we set out:
   - **Section A**: full details of the VMO2 Offer, including the prices, terms and conditions that would apply and the specific geographic area covered by the offer;
   - **Section B:** the purpose of the VMO2 Offer; and
   - **Section C**: the basis on which we believe the VMO2 Offer will not undermine network competition, in particular by reference to Ofcom's guidance at paragraphs A8.36 to A3.59 of Annex 8.
7. In summary, we believe that consent should be granted on the basis that this offer is targeted at a material and established competitor and that any potential incremental impacts on other altnets would not undermine the development of long-term network competition.

Section A: Details of the VMO2 Offer

Pricing/rebate payment

8. Under the terms of the VMO2 Offer, we would pay CPs a one-off £50 rebate for each New to Openreach FTTP line connected during the offer period that was incremental to a CP-specific pre-set baseline for each quarterly period. The offer covers New to Network (**NTN**)[1] orders and other Subsequent Provide[2] orders. Rebates would be paid quarterly.

Pre-set baselines

9. The pre-set baselines for each CP placing more than 1,000 orders have been set using data on completed orders in April 2026 in the VMO2 offer area.[3] Baselines for the offer period have been adjusted upwards to reflect planned FTTP footprint growth and CP-specific seasonality[4] based on data from October 2024 to March 2025. The resulting baselines across the five CPs placing more than 1,000 orders each month are set out in Annex 1. Small CPs placing fewer than 1,000 orders each month[5] would receive rebates on all orders connected in the offer period. Their low volumes and uneven ordering patterns make a short-term incremental baseline impractical.

Offer period

10. The offer would start on 1 October 2026, subject to Ofcom giving consent. This has been notified for an initial six-month period, with the option to extend an additional six months depending on CP responses and order effectiveness. This six-month extension has been provided for in the offer terms and conditions, and we would request that Ofcom considers the offer on the basis of a full twelve-month period (including in any consultation outcome / the granting of consent). If we do choose to extend the offer, we would then intend to notify CPs of the extension by way of a CP briefing with at least one day's notice without triggering a further formal notification requirement under SMP Condition 8.6. We should be grateful if Ofcom would confirm this approach as acceptable during the process of consultation and consent.

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1 As defined in the Equinox and previous FY26 NTN offers, essentially where there has been no active Openreach service to the premises in the previous 90 days. This excludes new build sites.

2 Any order where an inactive, powered, Openreach ONT is already in place at the premises (e.g., where there has previously been an FTTP service that has since been ceased).

3 CPs with volumes of less than 1,000 order in April 2026 have no baseline and all New to Openreach volumes in the VMO2 offer footprint will be discounted.

4 A seasonality adjustment, as requested by CPs during engagement, is made to reflect the fact that some months see stronger or weaker trading. Trading strength can vary due to universal factors – such as bank holidays and reduced trading over Christmas – or those that may be specific to certain CPs – such as pushing to increase volumes ahead of year-ends. As there are some CP specific factors, the adjustment is CP specific (albeit the methodology applied is uniform across CPs and is simply run over individual CPs' own figures). We have used movements from October 2024 to March 2025 as this period was not distorted by CP wholesaling decisions or previous NTN offers.

5 Defined according to volume of orders in April 2026 in the offer terms and conditions.

Performance calculation

11. Each quarter, each relevant CP's New to Openreach volumes will be measured against its specific quarterly baseline. The £50 rebate would be paid on the total volume of completed New to Openreach FTTP orders above the baseline each quarter.

Interaction with Equinox

12. Standard connection and rental list prices would apply when the circuit is ordered, with Equinox discounts applied in the usual way, where applicable. The £50 rebate on qualifying lines under the VMO2 Offer would then be applied separately.

13. All FTTP volumes receiving the rebate would also continue to count towards all other aspects of the Equinox contract:

    i. included in the Fibre Mix Target calculation;

    ii. included in the Equinox ARPU share calculation;

    iii. counted for the forecasting clause, which is currently waived; and

    iv. relevant for managed cease clawback.

Interaction with Frontbook ARPU Share offer

14. All incremental New to Openreach lines in the VMO2 footprint that qualify for the £50 rebate will be included in the Frontbook ARPU Share calculation while that offer is running.

Interaction with the National New to Openreach FTTP Offer

15. We have separately given 120 days' notice of a National New to Openreach FTTP Offer to take effect from 1 October 2026 that will provide rebates on connection and rental charges on incremental volumes above a CP-specific pre-set baseline. The intention is that the National New to Openreach FTTP Offer and the VMO2 Offer will operate in parallel, but independently. That is, the volume of orders that qualify as incremental under each offer will be calculated separately by reference to the different pre-set baselines. This means FTTP lines qualifying for the £50 rebate in VMO2 areas could also qualify for the rebates available under the National New to Openreach FTTP Offer. But it is also possible that CPs only qualify for the rebates under one offer.

Geographic area

16. The geographic area for the VMO2 Offer consists of postcodes where we have estimated, based on public sources, that VMO2 has network available and can supply broadband services to end customers. We have limited this area to include the 'cable legacy' footprint of around 13m premises originally deployed in the 1990s and the Project Lightning expansion of around 3m homes build from around 2015 to 2022. We have not included postcodes where we believe that there has been build undertaken by the nexfibre joint venture since 2022. Almost all the broadband services VMO2 will be able to supply to the c. 16m homes within the geographic area will be via a 'gigabit-capable' network – either its legacy hybrid fibre-coaxial (HFC) network or network that has been upgraded to FTTP via Project Mustang.

17. The postcodes selected are where we understand VMO2 to have network within a postcode, though this doesn't need to be complete coverage. This is based on publicly available data and internal estimates, with data sourced in Q4 FY26.[6]

18. The [✂] postcodes falling within the geographic area are attached in file "IN CONFIDENCE - Incremental New to Openreach Customer in VMO2 areas offer postcodes.xlsx" below. These postcodes cover [✂] UK premises. This area will remain constant for the full offer period.

    [✂]

6 Data on competitive footprints is inherently imprecise due to limited visibility of competitors' presence. [✂].

Section B: The purpose of the VMO2 Offer

19. Openreach is facing ongoing losses in the base of broadband lines supplied over copper and FTTP services. [✂]. Take-up of our broadband services has always been lower in areas with VMO2 presence given VMO2's retail position in its footprint. Its ability to offer gigabit-capable speeds over its legacy HFC network as well as over expanded and/or upgraded areas were FTTP is available has also given VMO2 a competitive advantage ahead of us rolling out our FTTP network capabilities. We therefore want to support our CPs in competing more effectively in acquiring broadband customers from VMO2 where our own gigabit-capable FTTP network is available.

20. The VMO2 Offer has been designed to augment the national New to Openreach FTTP Offer to provide additional incentives to our CPs to develop competitive propositions that specifically drive incremental volumes from VMO2 onto the Openreach FTTP platform.

21. We currently offer connection discounts on NTN orders through Equinox as a commercial incentive: the Residential Area 2 NTN Standard Connection is priced at £32.07, compared with £64.15 for the non-NTN equivalent. In addition, Subsequent Provide connections have a £0 list price irrespective of whether Equinox applies.

22. Last year, we ran short term offers that reduced NTN connection charges to zero (nationally in Q3 and in Area 2 only in Q4). [✂].

23. During this period, VMO2 increased pricing pressure with deeper discounts and more attractive bundles that were aimed at switchers seeking the best deals. Between October 2025 and March 2026, VMO2 introduced aggressive frontbook broadband offers, including Black Friday promotions[7] with three months free and up to £200 switching credit, followed in early 2026 by entry retail prices as low as £24.99 for 1Gbps, alongside switching credit of up to £250[8] and a temporary 2026 price freeze. It also strengthened its offer through Volt[9] bundles, combining broadband with mobile benefits such as speed boosts, double data and roaming perks. Together, these moves lowered both the effective monthly price and the cost to switch, raising competitive pressure on CPs seeking to defend acquisition volumes.

24. To meet our objective of supporting our CPs in acquiring an increased volume of FTTP lines and to compete with VMO2 more effectively, we needed stronger wholesale terms that provide opportunities for CPs to develop sufficiently attractive retail propositions in VMO2 areas. [✂].[10]

25. Offering improved pricing on conditions that require CPs to increase volumes from the CP-specific pre-set baselines will provide incentives to use the available flags and develop propositions that are specifically aimed at acquiring New to Openreach customers. The VMO2 Offer provides the additional incentives to focus effort in the VMO2 area to improve

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7 Virgin Media O2 goes BIG for Black Friday - Virgin Media O2.

8 New customers joining Virgin Media can benefit from up to £250 bill credit when switching - Virgin Media O2.

9 Virgin Media O2 | Boosted Volt Bundles - Official Site.

10 We include NTN flags in the FTTP Customer Ready for Service (CRFS) Report. We also include an 'ONT Status' flag within the FTTP CRFS report to identify premises eligible for Subsequent Provide.

competitiveness against this clearly established competitor where it has a considerable existing end customer base.

26. It follows that use of these offers by CPs will lead to lower prices, increased choice and better outcomes for UK consumers.

27. The impact of the offer on CP behaviour [✂].

Section C: Why we consider the VMO2 Offer will not undermine the development of long-term competition

28. At paragraph 9.85 of Volume 3 of the TAR Statement and, again, in paragraph A8.10 of Annex 8, Ofcom states that in assessing differential geographic pricing, it would consider:
    a. whether there is any objective justification for the differential pricing; and
    b. if not, whether it is consistent with Ofcom's overarching policy objectives, including its strategy to promote network competition. In this respect, Ofcom states it would consider whether the differential pricing is capable of harming competition in the long term.

Objective justification

29. Ofcom positions "objective justification" as where the price differentials reflect cost differentials and are applied consistently. We are not seeking to claim that the connection rebates available under the VMO2 Offer are reflective of lower costs of serving premises in this geographic area. The basis of our consent request is therefore focussed on the offer being consistent with Ofcom's overarching policy objectives and not being capable of harming competition in the long run.

Potential harm to long-term network competition from geographic offer in VMO2 area

30. As set out above, the VMO2 Offer provides rebates on connections in postcodes where we have identified that VMO2 has network available to supply broadband services that was deployed before 2022 – i.e. the postcodes exclude areas where network has been deployed by nexfibre since 2022.
31. Guidance is provided in Annex 8 of the TAR on how Ofcom would assess the potential harm to long-term network competition in assessing any geographic pricing within WLA Area 2. This guidance builds on Ofcom's reasoning in setting the SMP remedy requiring consent to be given for geographic pricing during the TAR period as set out in Section 9, Volume 3 of the TAR Statement.
32. In this reasoning, Ofcom is very clear that the competition concerns it identifies with geographic pricing *"… primarily relate to new network build by altnets, **rather than VMO2 within its established footprint**, given the potential impact on longer term network competition*".[11] (emphasis added)
33. Ofcom goes on to state that: "*VMO2's large existing network footprint and established customer base mean geographically targeted pricing is unlikely to negatively impact the long-term competitive constraint that it exerts on Openreach. Although VMO2 is upgrading its existing network, it already has a significant and established customer base in the areas where these upgrades are taking place*".[12]

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11 TAR Statement, Volume 3, para. 9.29.
12 Ibid.

34. Ofcom further states that: *"… we are less likely to be concerned about the effect of such offers on VMO2 within its established network footprint, even where it is upgrading that network. Consequently, our application of the analytical framework in Annex 8 will reflect VMO2's position."*[13]

35. This rationale is consistent with Ofcom's finding in Volume 2, Section 4 of the TAR Statement: that VMO2 is already a "*material and sustainable*" competitor to Openreach.

36. It is clear from this that the targeting of the VMO2 Offer at the relevant postcodes would not in itself be likely to raise competition concerns about the potential harm to long term competition, subject to two important considerations:

    a. Ofcom suggests that it might have concerns if an offer targeted area of "new" VMO2 network build. Specifically, Ofcom states: *"…where VMO2 is building new network outside its existing footprint, we would consider this as new network build. Given that VMO2 does not have a significant established customer base in new network build areas, discounts targeted at these areas are more likely to raise competition concerns*".[14]

    b. Ofcom notes that: "*… there are altnets that overlap with VMO2's footprint that could also be affected by offers targeted at VMO2, and this could impact the development of network competition in the long term…. Accordingly, we would need to assess the extent to which any geographic pricing scheme has effects on altnets and whether those effects are capable of harming the long-term development of network competition*".[15]

37. We have therefore considered: (i) whether the VMO2 Offer could be seen as targeting areas of new VMO2 build rather than established network; and (ii) to what extent the VMO2 Offer may affect altnets given areas of overlap and having regard to the wider guidance set out in Annex 8.

Whether the VMO2 Offer targets areas of new VMO2 build

38. Ofcom does not precisely define what it would consider to be "*new VMO2 build*" within the TAR Statement. The references quoted above strongly suggest that Ofcom is raising potential concerns with offers that were targeted at specific areas of recent network expansions on the basis that this might undermine the longer-term value of those expansions. This offer is clearly not doing that as the offer area excludes all nexfibre build which means almost all build in the footprint was completed before 2022 and the majority of the offer area (c. 13m out of 16.6m) relates to network that would have been installed by a range of separate cable companies in the 1990s.

39. We have excluded nexfibre build areas in this offer area, which may have potentially included areas of more recent build. In taking this approach, we are not suggesting that including all

[13] TAR Statement, Volume 3, para. 9.99.

[14] TAR Statement, Volume 3, para. 9.29.

[15] TAR Statement, Volume 3, para. 9.99.

or any of the nexfibre build area would have undermined long-term competition. But excluding the footprint means the question does not arise at this time.

To what extent the VMO2 Offer may affect altnets

40. We have assessed the extent to which postcodes we identify as having VMO2 network availability will also have altnet availability and the premises that fall within these postcodes (again, based on internal estimates and public sources). The table below summarises our assessment:

Table 1: [✂]

[✂]

41. The final column indicates the percentage of each network's footprint that could potentially be impacted by the terms of the VMO2 Offer. [✂].

42. We have, therefore, gone on to assess whether and how the specific terms of this offer and the pricing available on FTTP services could impact these altnets and, by extension, long-term network competition (by reference to Ofcom's guidance in Annex 8). Put simply, we see no risk of harm to long-term competition arising from this offer.

43. The offer is not targeting what we understand to be areas of planned build by rivals or areas where a rival network is present but not yet ready to compete at the wholesale level due to "temporary factors" – i.e. either of the two types of areas explicitly identified by Ofcom in Annex 8 as areas where targeted discounts could raise potential competition concerns:

    - The relevant postcodes within the VMO2 Offer area have not been selected to target areas where altnets plan further deployment or to undermine future build. In this regard, it is also relevant to note the general, well-reported slowdown in altnet build and switch to the commercialisation of existing networks – we would not expect the VMO2 Offer to have any material impact on altnets' build decisions or investment cases.
    - The offer area is also not designed to target areas where temporary factors could affect future wholesaling. In this regard, it is important to note that CityFibre has already agreed deals with the major CPs and many of the other altnets with a notable presence in the offer area are retail-focused, such that wholesaling is not a relevant factor for them.
    - In any event, Ofcom's concerns in this area (as expressed in the Annex 8 guidance) are clearly focused on identifiable and tangible temporary barriers, such as imminent deals or where agreements have already been signed with operational steps underway, rather than the longer-term, speculative possibility of future wholesaling. On the information available to Openreach, we are not aware of any material temporary barriers of that kind in the offer area.

- We also note that the potential for VMO2 itself to wholesale was considered insufficiently clear in Ofcom's TAR assessment to impact the approach to defining geographic markets, identifying SMP or setting remedies.

44. Ofcom also makes clear in its Annex 8 guidance that its focus is on competitive conditions in the round – even if a hypothetical proposition were to affect a network making a negligible contribution to competition, that would not necessarily raise concerns in the absence of a material impairment of other networks' abilities to compete. VMO2 and other altnets will continue to be able to exert a significant competitive constraint in the proposed offer area once the VMO2 Offer has been launched.

45. We also do not consider that the offer pricing can be considered 'too low' in the context of Ofcom considering whether we might be "*targeting geographic areas with prices that do not allow rivals in those areas to compete*" by reference to the guidance set out in Annex 8, paragraphs A8.33 to A8.43. Specifically, Ofcom states that its "… *starting point in assessing the impact of the [geographically] differentiated pricing will be to consider the localised price level. We will do this by comparing the weighted average FTTP rental price resulting from the geographically targeted price and our estimate of a reasonably efficient operator's costs derived from the 2026 Fibre Cost Model ("the REO cost range")*".[16]

46. The VMO2 Offer would provide a £50 connection rebate on New to Openreach FTTP volumes in excess of the pre-set baseline.

47. Ofcom's Fibre Cost Model 2026 (**FCM26**), as published alongside the TAR Statement, has a monthly unit cost range for a REO of £13.30 to £20.76 for FY26. Indexed by 3.6% CPI[17] this increases to £13.78 to £21.51 for FY27 (when the offer will be running), with a midpoint of £17.64.

48. Ofcom's FCM26 estimates the costs a REO would incur in building a network covering 5 million to 20 million premises in Area 2 and in connecting and serving customers from that network over a 40-year period. Unit cost estimates are driven by, among other things, assumptions on the level of take-up a REO will see over the 40-year period. This approach means that the significant upfront costs of building the network are recovered from recurring monthly charges over the full 40-year timeframe. Upfront connection costs – i.e. the costs of provisioning an active FTTP line from the built network connecting – are also recovered over the full 40-year period albeit after netting off any upfront charges applied for initial connection.

49. The upfront charges for connection assumed in the FCM26 is £40.04 and reflects the blended average of Openreach upfront charges at Equinox discounted prices. Ofcom treats upfront charges in the FCM26 as a contribution towards the amount invested in FTTP build and provisioning. The FCM26 therefore effectively considers the recurring monthly revenue the REO would require, on average, from each active line if the REO received the same average level of upfront contribution as Openreach. If this Openreach upfront contribution changes as a result of new Openreach pricing it is appropriate to reflect this in the FCM26.

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16 TAR Statement, Annex 8, para. A8.40.

17 CPI for the 12 months ending 31 October 2025, which was the reference CPI for charge controls used within the TAR.

Consistent with this, in the TAR, Ofcom say that if assessing price levels "*…it would likely amend the connection charges in the model to reflect Openreach's pricing at that time*".[18]

50. We have therefore made an adjustment to this REO range for FY27 in order to reflect the additional connection rebate available on incremental volumes within this VMO2 Offer as well as those that remain available under Equinox. I[✂].

Table 2: Blended connection contribution as impacted by this proposed offer

Connection Type	FY27 Price (with NTN discount)	FY27 Price (with NTN discount+VM02) localised in VMO2 offer area	% of total FY27 FTTP orders
NTN Area 2	(2.93)	(52.93)	[✂]
NTN Area 3	92.26	42.26	[✂]
Subsequent Provide	(35.00)	(85.00)	[✂]
Total NTN / Subsequent Provide	[✂]	[✂]	[✂]
Acquisitions (Visited) Area 2	64.15	64.15	[✂]
Acquisitions (Visited) Area 3	127.23	127.23	[✂]
Same CP Migrations Area 2	31.02	31.02	[✂]
Same CP Migrations Area 2	86.45	86.45	[✂]
Proactive Migrations	-	-	[✂]
			[✂]
Non-Visited	3.94	3.94	[✂]
Blended Total	[✂]	[✂]	[✂]

51. The reduced connection revenue contribution in the model would fall from Ofcom's current TAR figure of c. £40 to [✂] (when combined with the impact of the National New to Openreach offer and localised into the VMO2 offer footprint only). We have applied this to all of FY27 (as this offer could run for 12 months) but left the other connection contributions for other years unchanged as this is a short duration offer. This slightly increases the range to (in FY27 terms) [✂].

52. If hypothetical wholesale rivals competing with Openreach in the VMO2 area matched Openreach FTTP price levels, they would generate the same ARPUs Openreach generates from its current Equinox offer of [✂] in FY27. This would be above the middle of the adjusted

18 TAR Statement, Annex 11, para. A11.107

REO range set out above and would not, consistent with Ofcom's guidance in Annex 8, raise any concerns that localised pricing in the VMO2 area was too low.

53. As the VMO2 Offer would operate alongside the National New to Openreach offer, we have also considered whether the ARPUs we have estimated a hypothetical rival could offer would sit above the midpoint of the adjusted REO range. Our separate submission on the National New to Openreach offer explains the methodological choices behind our ARPU calculations for the VMO2 Offer. This submission is relevant in considering the potential impact of the National New to Openreach offer in the VMO2 footprint. The table below provides our estimate of the ARPU a hypothetical rival could generate on its frontbook FTTP sales if matching the offer pricing and Equinox pricing for non- "New to Openreach" sales. This table specifically uses weightings of NTN and Subsequent Provide sales in the VMO2 area. This shows that even frontbook ARPUs are above the midpoint of the range set to include the value of the additional £50 rebate available in VMO2 areas.

Table 3: Hypothetical rival 5-year ARPU if matching Openreach prices for all New to Openreach within broadband frontbook

5-year ARPU	Tier 1	Tier 2	Tier 3	Blended
Discounted applied [✂]	[✂]	[✂]	[✂]	[✂]
Remaining Broadband connections at Equinox ARPU [✂]	[✂]	[✂]	[✂]	[✂]
Total Broadband Frontbook	[✂]	[✂]	[✂]	[✂]

54. The National New to Openreach offer submission sets out further reasoning on why it would not be appropriate to focus solely on the frontbook ARPUs. Inclusion of backbook ARPUs would increase the overall ARPU above the midpoint of the range.

Table 4: Hypothetical rival ARPU including assumed existing base

5-year ARPU	Tier 1	Tier 2	Tier 3	Blended
Total Broadband Frontbook [✂]	[✂]	[✂]	[✂]	[✂]
Broadband Backbook [✂]	[✂]	[✂]	[✂]	[✂]
Total Broadband base	[✂]	[✂]	[✂]	[✂]

55. We therefore conclude that the incremental impact of the VMO2 Offer and the combined impact of the VMO2 Offer and the National New to Openreach offer do not undermine the development of long-term competition.

Annex 1: Baselines

[✂]