

Response to Ofcom consultation:

Further consultation on leased lines market analysis and various pricing issues



Submitted 17th December 2025

Non-Confidential

Introduction and Summary

1. The respondents¹ welcome the opportunity to respond to Ofcom's *Further Consultation on Leased Lines Market Analysis and Various Pricing Issues*, published 17 November 2025. We support Ofcom's broader aims to ensure cost-reflective pricing, promote sustainable competition, and incentivise efficient investment across wholesale markets.
2. However, we have significant concerns regarding Ofcom's proposal to adopt BT's new fibre cost allocation methodology—particularly the use of utilised fibre counts (i.e., fibres in use by active or dark fibre services) as the primary driver for allocating Core Junction Fibre ("CJF") and Access Spine Fibre costs in both the LLA and IEC markets. Ofcom acknowledges that incorporating these reallocations would increase both the starting charges and ongoing price paths for dark fibre services in Area 3 and SMP exchanges (Section 5).
3. Ofcom therefore proposes to change cost allocations (and resulting prices) in the LLA market resulting from the BT/Openreach response to the March consultation stating that there may be an error in how costs of backhaul fibres are allocated in its RFS. BT/Openreach has also subsequently published a 'Part 1' Change Control Notification² – proposing changes to the RFS cost allocation methodology resulting in a re-allocation of costs between the LLA and WLA markets (the change notification).
4. Ofcom describes the contents of the BT/Openreach's change notification as follows:
 - The existing methodology for allocating CJF costs assumes that FTTC and FTTP services always use CJF cables to connect child exchanges to parent exchanges. However, BT's analysis has identified that this is often not the case, and that access spine fibre cables are often used to connect child exchanges to parent exchanges.
 - CJF cables are also used to provide Main Link connectivity for services in the LLA and IEC markets (including Ethernet, WDM and dark fibre services). For Main Link services, the existing calculations for CJF cost allocations use the straight-line billed distance multiplied by 1.2 to account for route inefficiencies, whereas BT's planned new methodology calculates CJF cost allocations based on actual lengths of CJF cables used across Main Link, FTTC and FTTP services.
 - The existing allocation methodology uses the maximum capacity (in terms of potential fibre count supported) of the fibre cables associated with a given product (regardless of whether they are utilised or unutilised). BT's planned new methodology instead calculates Access Spine Fibre cost allocations based on the number of utilised fibres associated with a given product.
5. Our response focuses on the following issues.
 - Timing:

Ofcom is proposing to implement changes resulting from BT RFS changes that have not yet been fully published. This does not allow stakeholders to properly scrutinise the changes made by Openreach, nor fully understand the detailed consequences of those changes.
 - Cost allocation methodology:

¹ FullFibre, Zzoomm, GoFibre, Ogi and Commsworld.

² BT Group. 2025. Change Control Notification: Part 1 – 3 October 2025.

- Setting prices which reflect low utilisation (and corresponding high unit costs) of spine fibres despite CJF fibres being available for the same purpose and at a lower unit cost;
 - using active-fibre utilisation as the driver for fibre cost allocation disproportionately and inappropriately shifts costs onto LLA and IEC services and away from WLA services during a period of low FTTP utilisation.
- Implementation approach:
Even if Ofcom accepts a higher allocation of fibre costs to LLA/IEC markets, it is not reasonable or proportionate to impose these increases via step changes to starting charges, as this would destabilise developing competition in IEC dark fibre.
6. We note that Altnets depend on IEC dark fibre (DFX) as a key input for implementing backhaul circuits, which in turn are a key component in delivering FTTP services. DFX costs therefore directly impact the economics of competitive FTTP rollout.
 7. By contrast, BT's own FTTP network is not sensitive to regulated IEC pricing, due to its ability to self-provide its backhaul network.

Concerns about lack of scrutiny and transparency

8. We have two main concerns in this area:
 - We are concerned that Ofcom is proposing to introduce changes to the TAR that are based on a proposed change in costing methodology from Openreach that is yet to be approved by the BT RFS auditors and for which stakeholders have only very little insight and no actual data or detailed methodology showing exactly which costs are moved and what the individual drivers for those reallocations are.
 - We are concerned that Ofcom is introducing these material changes at the 11th hour of the TAR review period, not giving stakeholders the necessary time to analyse them in detail and seek additional information from Ofcom/Openreach.
9. These concerns are amplified by the material impact of the proposed changes. The respondents are concerned that these changes have been proposed by Openreach to find a way to get its wholesale customers (and direct competitors) to pay for its high costs in its spine fibre network due to many customers still choosing to stay on the copper connections. Not only would this put Openreach in a lower cost position than its competitors, but it would load those costs directly onto its competitors as well.
10. In order to carry out a meaningful review of the proposed changes it would be necessary for us to have access to:
 - an impact analysis of the changes at a service level (the BT CCN only considers market-level impact);
 - a breakdown of the impact by the different changes (use of actual distances, inclusion of access spine cables into inter-exchange links and use of utilisation as a cost driver); and
 - the changes which Ofcom proposes to make to the LLA and dark fibre charge control models in order to arrive at its final decision.

11. This response is informed by a meeting with Ofcom during which our advisors were given information that was not explicit in the consultation document. Further, the information provided by the Ofcom team suggested that they too do not have a full understanding of the detailed rationale for the changes Openreach has proposed, nor a comprehensive understanding of their likely impact on the market overall.

Concerns About BT’s Revised Fibre Cost Allocation Methodology

Overview of Ofcom’s proposal

12. Ofcom proposes to incorporate BT’s planned 2025-6 RFS methodology for allocating CJF and Access Spine Fibre costs into its charge-control model.³ Ofcom describes the contents of the BT/Openreach’s change notification as follows:
- The existing methodology for allocating CJF costs assumes that FTTC and FTTP services always use CJF cables to connect child exchanges to parent exchanges. However, BT’s analysis has identified that this is often not the case, and that access spine fibre cables are often used to connect child exchanges to parent exchanges.
 - CJF cables are also used to provide Main Link connectivity for services in the LLA and IEC markets (including Ethernet, WDM and dark fibre services). For Main Link services, the existing calculations for CJF cost allocations use the straight-line billed distance multiplied by 1.2 to account for route inefficiencies, whereas BT’s planned new methodology calculates CJF cost allocations based on actual lengths of CJF cables used across Main Link, FTTC and FTTP services.
 - The existing allocation methodology uses the maximum capacity (in terms of potential fibre count supported) of the fibre cables associated with a given product (regardless of whether they are utilised or unutilised). BT’s planned new methodology instead calculates Access Spine Fibre cost allocations based on the number of utilised fibres associated with a given product.
13. BT’s impact analysis⁴ suggests that these changes will result in the following changes to costs at the market level:

| | WLA Area 2 | WLA Area 3 | LLA Area 2 | LLA Area 3 | LLA HNR | IEC BT-only | IEC BT+1 |
|---------------------|------------|------------|------------|------------|---------|-------------|----------|
| Original FAC (£’m) | 2,508 | 1,433 | 446 | 230 | 37 | 49 | 35 |
| Change in FAC (£’m) | -64 | -38 | +28 | +32 | +1 | +19 | +4 |
| % change | -3% | -3% | +6% | +14% | +3% | +39% | +12% |

³ TAR 2026-31: Further consultation on leased lines market analysis and various pricing issues, November 2025, Section 5

⁴ BT Group Change Control Notification: Part 1 – 3 October 2025, analysis of Sections 3.1.2 and 3.1.3

14. Ofcom notes that adopting these methodology changes into its leased line and dark fibre costing models will have the following material impacts on its charge controls in the LLA and IEC markets.⁵

| Product | Charge control | High cost scenario | | Base cost scenario | | Low costs scenario | |
|-----------------------------------|----------------|--------------------|-----------|--------------------|-----------|--------------------|------------|
| | | SCA | Glidepath | SCA | Glidepath | SCA | Glidepath |
| DFX connection | Existing | -8% | CPI-6% | -10% | CPI-8% | -11% | CPI-9% |
| | Proposed | +7% | CPI-0.75% | +5% | CPI-2.25% | -10% | CCPI-8% |
| DFX main link rental | Existing | -11% | CPI-2.25% | -14% | CPI-3.5% | -17% | CPI-4.75% |
| | Proposed | +36% | CPI+9.25% | +29% | CPI+7.25% | 0% | CPI-0% |
| Ethernet basket 1Gbit/s and below | Existing | None | CPI-4.75% | None | CPI-6.75% | None | CPI-8.5% |
| | Proposed | None | CPI-0% | None | CPI-0% | None | CPI-0% |
| | | | CPI-1.28% | | CPI-7.58% | | CPI-16.98% |
| | | | CPI+0.25% | | CPI-1.75% | | CPI-5.25% |

Openreach use of spine fibre instead of CJF fibres

15. We understand from our meeting with Ofcom that Openreach engineers have in many instances chosen to provide the main link components of EAD and DFX connections using spine fibres instead of the CJF fibres running directly between exchanges. This may be motivated by a desire to gradually move away from direct connection of exchanges given that some exchanges are due for closure. Exchange closures are, however not scheduled at any volume until after the expiry of the TAR, and the CJF fibres will remain in place and fit-for-purpose during the TAR period. The use of spine fibres is, thus, a choice by Openreach, not a necessity. It is also likely to be a departure from how inter-exchange connectivity has been provided in the past.
16. Throughout its many years of setting cost-based wholesale access charges for CPs to access the BT/Openreach network, Ofcom has maintained that the costs that can be recovered are those that are incurred efficiently. If BT/Openreach chooses to provide regulated access services in a manner that incurs higher costs than necessary, then it should only be allowed to recover the level of efficient costs. It is our understanding that the lowest cost option to provide inter-exchange connectivity is to use CJF fibres and that that is unlikely to change during the TAR period. If that is the case, then it would be Ofcom's duty to ensure that any cost-based charges are set based on the CJF fibre costs, not the spine fibre costs.
17. Our concerns about the use of spine fibre costs relate to both the unit costs of the spine fibre (as that is likely to be higher due to current levels of utilisation) and the fibre length used (as the use of spine fibre is likely to result in longer routes than the direct inter-exchange CJF fibres).

Concerns with utilisation-based cost allocation

18. As set out above, the respondents disagree with the inclusion of spine-fibre costs in the DFX main link costing and pricing. Nevertheless, should Ofcom decide to proceed on

⁵ TAR 2026-31: Further consultation on leased lines market analysis and various pricing issues, Table 5.2, TAR 2026-31 Consultation, March 2025, Table 5.1

that basis, we set out our concerns below about the BT/Openreach proposal to change the cost driver from 'maximum capacity' to the actual present level of utilisation.

19. While we recognise that BT may now have improved underlying data concerning the cable lengths and usage of cables by different products, the choice of utilisation as the key cost driver raises several concerns.
20. This shift distorts the relative cost burdens across markets:
 - WLA FTTP networks currently exhibit low fibre utilisation during the early and mid-rollout phases.
 - IEC and LLA services involve higher fibre utilisation, as these are more mature fibre markets.
21. The effect is a reallocation of costs away from the WLA FTTP market where fibre utilisation is currently low (and where BT/Openreach faces growing competition) and onto IEC DFX services which are used by Altnets for FTTP backhaul (where the competition is likely to be less intense).
22. When FTTP networks are initially deployed, cables are installed with capacity which allows for the eventual projected take-up of the service; it may take many years to reach this penetration target, and in the meantime the majority of fibres will remain unutilised. In the instance of the BT/Openreach fibre spine network, these fibres are largely intended for use by the FTTP services (which is projected to increase significantly over time), and use of these fibre cables by leased line services (a mature market) is likely to remain at a low and stable level.
23. Openreach's FTTP take-up by March 2025 was 36%,⁶ and by September 2025 it was 38%.⁷ While there is no consensus forecast for Openreach's future FTTP take-up, and this will depend on the success of Altnets in gaining market share, it seems plausible that Openreach may ultimately achieve a share of 50-70% of FTTP lines, implying a fibre utilisation well in excess of current levels.
24. Cables with high utilisation will have lower unit costs per utilised fibre than those with lower utilisation. So as take-up of FTTP services increases, and eventually reaches a mature, stable level, the cost allocation based on fibre utilisation will swing back to WLA services and away from LLA and IEC services.
25. We also note that, while Access Spine Fibre cables may be used in different parts of the network (for example, GPON, point-to-point fibre, inter-exchange links), the planning rules around provision of fibre capacity are likely to vary considerably. This may result in differing fibre cable utilisation, even in the long run after take-up of FTTP has stabilised; where different services require different levels of planned spare capacity (and hence have different utilisation), then each service should bear the costs of its own required spare capacity. Simply using of fibre utilisation as a cost driver spreads the cost of spare capacity evenly and hence introduces a cross-subsidy.
26. The data presented by Ofcom suggests that its proposed approach to cost allocation will result in a short-medium term swing of fibre costs away from WLA and towards LLA and IEC services which will then be reversed as FTTP take-up approaches maturity. This will increase the backhaul costs incurred by Altnets over the critical period when they have

⁶ 2025 BT Group Annual Report page 53

⁷ BT Group Results for half year to September 2025 page 3

incurred the up-front costs of network deployment but before FTTP revenues have fully developed.

27. The asymmetric nature of Ofcom's high/base/low cases presented as the potential impact on the DFX charge control suggests that Ofcom expects the impact to be temporary and that (as a result of using utilised fibres as a driver) increased FTTP take-up would, as suggested above, cause the DFX price to reduce substantially over time.
28. This is a regressive and competition-distorting outcome which is contrary to Ofcom's aims to promote investment and competition in gigabit-capable networks.⁸

Impact of higher DFX prices

29. Higher DFX prices will harm competition in the WLA market. Altnets typically build FTTP access networks using their own fibre, but often rely on IEC DFX to connect:

- Access network headends / OLT sites
- Aggregation nodes
- Interconnect locations
- Core or peering sites

This architecture is not optional: without competitive IEC backhaul, Altnets cannot viably deliver FTTP services. Ofcom designed the DFX product to reduce barriers to competitive FTTP deployment in locations without competitive backhaul.

The DFX price level is a material input to the business case assessment for local FTTP deployments in rural or semi-rural locations. Whilst it is understandable that prices may change over time, this level of change could not have been anticipated. Given the clear weaknesses in the rationale and justification presented by Ofcom in this consultation, and the concerns expressed above, the respondents urge Ofcom to not introduce these changes.

30. In contrast, BT uses largely internal backhaul routes and is not exposed to regulated IEC DFX pricing. This creates an asymmetric impact:
 - When IEC DFX prices increase, Altnet FTTP costs rise significantly;
 - BT faces little or no equivalent increase;
 - BT's short term WLA costs reduce, making giving at an additional competitive advantage in the WLA market;
 - Therefore, BT gains a competitive advantage in retail fibre markets not because of efficiency, but because of regulatory price design.

Concerns about Ofcom's proposed implementation approach

⁸ TAR 2026-31: Further consultation on leased lines market analysis and various pricing issues, November 2025, Section 2

31. Regardless of any change in fibre allocation, we believe that the step increase in DFX costs which results from Ofcom's proposed starting charge adjustment is not appropriate as it will have a de-stabilising effect on competition in the WLA market.
32. A sudden increase in year 1 of the charge control would:
- invalidate Altnet business cases built on assumptions of continuity with Ofcom's previous charge controls;
 - disrupt the economics of build programmes which are already under way;
 - increase marginal build costs, especially in harder-to-reach areas;
 - reduce and/or delay FTTP deployment by Altnets, thereby reducing competitive tension in retail FTTP markets, leading to reduced FTTP availability to consumers and higher prices.
33. The respondents consider that the proposed increases would be in breach of the legitimate expectations of the Altnets who have invested in full fibre local access networks in areas where commercial backhaul is not available. A one-off increase in cost of up-to 39% for the main component of the DFX produce can materially impact the viability of full fibre networks in rural areas. Ofcom's duties under the Communications Act 2003 include to exercise its powers and discharge its duties in a transparent and predictable manner.⁹
34. This distortion arises from methodology timing, not from forward-looking economic costs. Fibre cable assets are long-lived (20+ years), and represent a significant up-front investment which is recovered gradually over the life of the asset. This effect is particularly striking in the case of new network deployments such as FTTP, where the utilisation increases gradually from a very low initial level. It would be destabilising to reflect such temporary cost changes via large Starting Charge Adjustments.
35. We also note that step increases are not line with Ofcom's own stated approach to charge-controls. For example, in the 2009 LLCC Ofcom stated "*we have retained a general preference for glide paths*"¹⁰ and explains that glidepaths approximate a competitive process where excess profits are gradually eroded, give regulatory stability, and maintain incentives (regulatory lag).
36. In the 2011-2015 mobile call termination charge control, Ofcom noted it was setting "*the charge control using pure LRIC, with a glide path finishing in the final year*"¹¹ and that a 4-year glide path was appropriate "*given the size of the proposed reductions in MTRs*". It treats the glide as the proportionate way to phase in large reductions (re-balancing tariffs, avoiding abrupt shocks) and explicitly discusses responses focused on "glide path duration" rather than immediate cuts.

It is clear that Ofcom has generally preferred glidepaths over step-change adjustments and it is unclear why Ofcom are now proposing potentially large step increases in DFX prices. The proposed step increase is not caused by real cost changes; BT's fibre network costs have not increased, only the internal allocation methodology has changed. There seems little economic justification for imposing an immediate price change on

⁹ **Section 3(3)(a)** of the Communications Act 2003 (3): "*In performing their duties under subsection (1), OFCOM must have regard, in all cases, to—*
(a) the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed;"

¹⁰ Leased Lines Charge Control para 3.228

¹¹ Wholesale mobile voice call termination – Statement 15 March 2011 paras 2.31.5, 10.5

wholesale DFX customers, especially when it is driven by an accounting methodology revision which fails the cost causation principle and risks over-recovery in the early years of the period.

Recommended Approach

37. We propose that Ofcom adopts the following approach:

- **The proposed changes in fibre allocation methodology should not be implemented as part of the TAR charge controls.** The lack of data and transparency to support the proposals is deeply concerning. The potential consequences of potentially allowing these last-minute change requests from BT/Openreach are significant and effectively irreversible for at least the 5-year TAR period. The respondents consider it would be irresponsible and potentially reckless for Ofcom to proceed based on the data and other evidence presented.
- **Ofcom should allow Openreach to recover only the costs of using CJF fibres for DFX Main Link services.** The Openreach use of spine fibre is a choice made by Openreach. If it does not reflect the most cost-efficient way to deliver the relevant services in the current network architecture, then Openreach should not be able to recover any costs in excess of what would have been the most cost-efficient method. This would seem to be the continued use of CJF fibres.
- **Costs and pricing should reflect longer-term cost recovery, not short-term inefficiencies.** The proposal appears to be an opportunistic move by BT/Openreach, reflecting a temporary inefficiency at their early stages of FTTP take-up. This type of early life-stage inefficiency is experienced by all network operators and Openreach should not be able to off-load its own costs to its competitors. Retaining cable-based drivers is the most proportionate and predictable approach and will avoid embedding a methodology that reflects transient utilisation patterns during FTTP rollout.
- If Ofcom does choose to allow spine fibre costs to be allocated to inter-exchange circuits, then it should make adjustments to ensure that valid and enduring differences in fibre utilisation between WLA, IEC and LLA markets are properly accounted for, and that temporary differences (such as during FTTP network rollout) do not result in price changes that are harmful to competition and which need to be reversed in future charge control periods.
- **Any price increases should be introduced via a glidepath, not with large Starting Charge Adjustments.** In any case, where Ofcom introduces a change in costing methodology which results in a material price change, it should apply a multi-year glidepath that gradually phases in the reallocated costs. This:
 - avoids market shock;
 - allows Altnets to incorporate revised costs into network planning; and
 - maintains competitive neutrality.