SPC Network

Report for nexfibre:

Simplified Lead-in PIA Charges

December 2025

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About SPC Network

SPC Network was founded in 2003 and has worked for over 55 clients worldwide. We undertake Strategic Policy Development in platform and networked industries, by combining the knowledge of our consultants with specific and valuable skills to ensure rigorous analysis and exceptional advice. Our core consultancy team and network of partners have substantial experience in industry and consulting meaning that we understand the practical issues and challenges facing the market. Through advanced academic training, we have developed the key skills and rigorous approach needed to support our clients in the policy debate.

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1 EXECUTIVE SUMMARY

1. In this paper, we argue that Ofcom correctly set the Simplified Lead-In Service charge in the Telecoms Access Review (TAR) consultation document to reflect both the "fair share" for the average number of altnets using a PIA services and the adjustment for stranded lead-in services. This means that Openreach is incorrect in its assertion that the fair share adjustment for the joint-box and lead-in link duct already has the stranded lead-in adjustment included. Therefore, removing the stranded lead-in adjustment from these elements of the lead-in service would lead to a significant over recovery of costs for Openreach. Therefore, Ofcom should not reverse its original decision in the TAR consultation and should keep the stranded lead-in adjustment in place for all three components of the Simplified Lead-on Service. The detailed reasoning supporting this view is set out below.

2. Where an operator enjoys Significant Market Power (SMP), and Ofcom has concluded that certain products need to be price regulated using cost-based pricing methods, Ofcom seeks to achieve a balance between two broad objectives:

   - Allow Openreach to recover its efficiently incurred costs.
   - Apply reasonable efforts to ensure that the alternative fibre network builders ("altnets") are not charged excessively, such that Openreach does not over-recover its costs.

3. The simplified lead-in service, introduced by Openreach in the WFTMR, was broadly welcomed across the industry due to the removal of a very significant administrative burden on both Openreach and the altnets. However, right from the start altnets highlighted the risks associated with so-called "stranded lead-ins": defined as lead-ins that had previously been installed but were no longer revenue generating for the altnets because the customer had churned back to Openreach. It made no economic sense for altnets to physically remove a lead-in fibre when an end-customer churned to a different supplier, as that customer (or a new occupier) might return to the altnet at some point in the future. Furthermore, Openreach does not remove its final connection and so, from a no-undue-discrimination perspective, altnets should not be required to do so either.

4. If an altnet were to continue to pay for the stranded lead-ins, then there would automatically be cost over-recovery by Openreach. In recognition of this fact, in the WFTMR Ofcom determined that, although altnets should be required to pay for all lead-ins, the "standard" price for a lead-in duct element of the Simplified Lead-in Service would be reduced by 10%. At that stage, the other two components (lead-in link duct and joint box access) had no reduction applied.

5. Prior to the publication of the TAR consultation document, Ofcom welcomed and encouraged the various stakeholders to make submissions to the regulator on aspects of the

WFTMR determinations that they thought should be amended or at least updated. SPC Network was contracted by the PIA Coalition[1] to review PIA costs and we argued for two specific changes to be made with respect to the simplified lead-in service. These were:

- The reduction that was applied to counteract the risk of cost over-recovery by Openreach needed to be increased dramatically over the period covered by the TAR, due to the compounding effects of churn.
- The reduction needed to be applied to all three components of the simplified lead-in service, as the rationale was exactly the same.

6. Ofcom responded positively on these points and made the adjustments proposed. However, following subsequent position submitted by Openreach, Ofcom seems to have been persuaded by Openreach's arguments on the application of the reduction for stranded lead-ins from the Lead-In Link duct and Joint Box access, resulting in its release of a mini-consultation on 17th November to elicit responses from the altnets.

7. The crux of Openreach's argument is that both single bore spine duct, and joint box access already have a fair share adjustment made to the underlying per unit costs and, as such, no further adjustment is warranted to allow for stranded use of these PIA assets. If that were the case, then the fair share adjustments already made for the avearge number of altnets using the lead-in components must have already taken stranded use into account. We do not see any evidence in either the WFTMR or TAR documents, or indeed in Openreach's response to the TAR consultation, to support this assetion.

8. Our counterargument is that altnets and Openreach do not remove fibre from lead-in services if a customer is lost to a rival. The stranded lead-in adjustment was designed by Ofcom to ensure that an altnet that had experienced churn was not financially disadvantaged compared with Openreach or an altnet that had experienced a low level of churn. The stranded lead-in adjustment was not related to the average number of networks using a PIA service.

[1] Community Fibre, Gigaclear, Netomnia, All Points Fibre and nexfibre.

2 INTRODUCTION

9. Nexfibre has asked SPC Network to respond to Section 4 of Ofcom's Further Consultation, issued in November 2025, on the Telecoms Access Review (TAR)[2] which considers the regulated prices charged by Openreach to other fibre network builders (altnets) for the Simplified Lead-in Service.

10. This further consultation follows Openreach's response to the TAR Consultation, in which they appear to have argued that the price proposed in the TAR was too low. As we understand Openreach's argument, the "fair share" and the stranded lead-in adjustment, to account for customers who churn away from an altnet ("lead-in charge adjustment"), should not both be applied to the components of the Simplified Lead-in Service as doing so results in a price below cost.

11. Ofcom is minded to accept that there should be no adjustment made to the joint-box and lead-in link duct elements of the Simplified Lead-in Service, but only to the lead-in duct, as had been the case following the Wholesale Fixed Market Review (WFMTR) in 2021.

12. In our view, Ofcom was correct in its original decision in the TAR consultation that the lead-in charge adjustment should apply to all elements of the lead-in service as Openreach's position is incorrect. We therefore urge Ofcom to retain its original decision. Our detailed reasoning is set out in this report.

13. In our reports for the PIA Coalition submitted to Ofcom in 2024 and 2025[3] in advance of and in response to the main TAR consultation, we submitted that the lead-in charge adjustment should be made to all elements of the Simplified Lead-in Service, alongside a significantly revised assumption of the proportion of an altnet's total lead-ins that would be likely to be stranded by the end of the period covered by the TAR. These proposals were originally accepted by Ofcom, but the November Further Consultation is proposing to at least partially reverse that view.

14. To prepare this report, we have reviewed Openreach's redacted response to the TAR consultation, and revisited all the relevant Ofcom documents stretching back to the WFTMR Consultation document[4] to seek to understand both Openreach's views and also what Ofcom intended. In our view, as we explain in this report, Openreach is incorrect that the lead-in

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[2] Ofcom "*Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31: Further consultation on leased lines market analysis and various pricing issues*" November 2025

[3] SPC Network "Improving the PIA Cost Model in light of the upcoming Telecoms Access Review" July 2024 and "Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31 ("TAR"): Response to Ofcom regarding Physical Infrastructure Access (PIA)" June 2025

[4] *Ofcom "Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26"* January 2020

charge adjustment should not be included as an adjustment to the basic Openreach-altnet fair share percentages for the lead-in link duct and joint box access. We therefore think that Ofcom should revert to the proposal it made in paragraph 4.58 of Volume 4 of the TAR consultation document, where Ofcom stated that:

> "We consider it appropriate to apply this discount rate to all three cost elements (lead-in duct, lead-in link duct, and facility hosting) that determine the simplified lead-in charge."

15. This report is structured as follows:

- In Section 3 we discuss the Simplified Lead-in Service in general.
- In Section 4 we present and discuss a series of formulae that are relevant to the pricing structure of the Service. We also present a worked example for shared rider duct (the major element to the lead-in link duct) to illustrate beyond doubt, in our view, the cost over-recovery that would result if Openreach's argument is accepted by Ofcom.
- In Section 5 we provide a more detailed work-through of, and our commentary on, the underlying thinking and reasoning of Ofcom has developed over the years since the January 2020 consultation to the WFTMR. In particular, we demonstrate that the current fair share percentages for single bore spine duct and joint box access do not take any account of stranded use of those facilities.

3 THE SIMPLIFIED LEAD-IN SERVICE

16. The Simplified Lead-In Service, introduced by Openreach in the WFTMR, was broadly welcomed across the industry due to the removal of a very significant administrative burden on both Openreach and the altnets. Prior to its introduction, altnets had to purchase three separate products from Openreach to provide a final connection to an end customer. These were:

- Lead-in duct. This was the final duct that led up to the end customer premises.

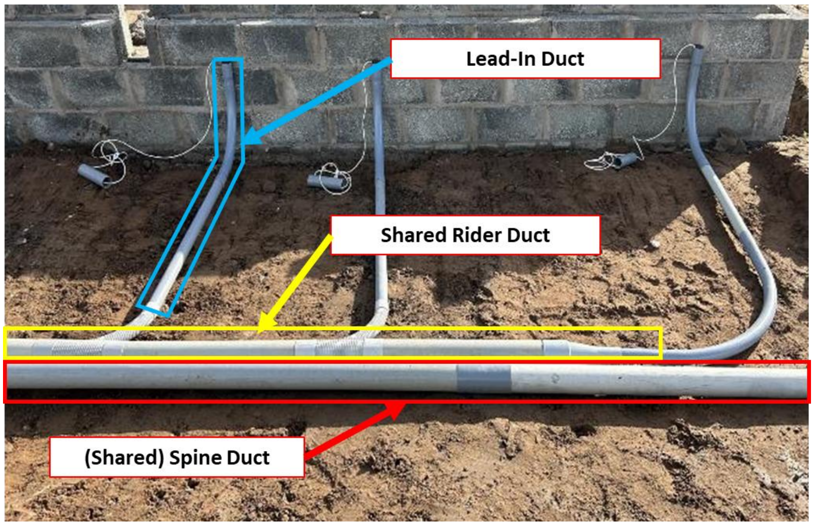
- Joint box access/entry. This was the first available point where an altnet could realistically connect the lead-in cable to its fibre access network.

- Single bore spine duct. This was ducting that linked the lead-in duct to the joint box.

17. Although the single bore spine duct was deemed to be the same, and thus priced the same (pounds per annum per metre), whether part of a lead-in cable deployment or for other more general use purposes, the physical duct used was different and comprised two distinct types when used by a lead-in cable. These were described by Ofcom in the WFTMR[5] as:

- Shared rider duct.

- Shared (single bore) spine duct.



Source: Openreach[6]

[5] Paragraphs 4.140 and 4.141 in Volume 4 of the WFTMR Statement

[6] https://www.openreach.com/content/dam/openreach/openreach-dam-files/new-dam-(not-in-use-yet)/documents/help-support/New-Sites-Fibre-Handbook-August-2024-online.pdf

18. Both the shared rider duct and shared spine duct are solely used by lead-in cables. Thus shared spine duct is distinct from “normal” spine duct. Furthermore, for both shared rider duct and shared spine duct there is no practical way for an altnet to deploy sub-duct. Of the two, the vast majority of the distance[7] (probably around 90%) is covered by shared rider duct.

19. The aim of the Simplified Lead-In Service was to allow Openreach to offer a simple “average usage” product, where the quantity of single bore spine duct (in metres) and joint box access (in entries) was largely based on Openreach research of weighted average quantities across its network – to the extent that Openreach had suitable documented data available.

Stranded Lead-Ins

20. Even during the consultation on the introduction of the Simplified Lead-In Service, altnets highlighted the risks associated with so-called “stranded lead-ins”: defined as lead-ins that had previously been installed but were no longer revenue generating for the altnets because the customer had churned to an alternative provider. It makes no economic sense for altnets to physically remove a lead-in fibre when an end-customer churned to a different supplier, as that customer (or a new occupier) might return to the altnet at some point in the future. Furthermore, Openreach does not do so, and never has. Thus, from a no-undue-discrimination perspective, altnets should not be required, or even expected, to do so either.

21. Where an operator enjoys Significant Market Power (SMP), and Ofcom has concluded that certain products need to be price regulated using cost-based pricing methods, Ofcom seeks to achieve a balance between two broad objectives:

- Allow Openreach to recover its efficiently incurred costs.
- Apply reasonable efforts to ensure that the alternative fibre network builders (“altnets”) are not charged excessively, such that Openreach does not over-recover its costs.

22. If an altnet were to continue to pay for the stranded lead-ins, then there would automatically be cost over-recovery by Openreach. In recognition of this fact, Ofcom determined that, although altnets should be required to pay for all lead-ins, the “standard” price for a lead-in duct element of the Simplified Lead-in Service would be reduced by 10%. At that stage, the other two components (lead-in link duct and joint box access) had no

[7] Paragraph 4.144, first bullet states that the lead-in duct plus shared rider duct comprises over 95% of the total lead-in distance. The WFTMR PIA Cost Model provides an average distance for lead-in duct of 11.33 metres, and lead-in link duct of 10.362 metres (both admittedly randomized inputs).

reduction applied. No justification was provided by Ofcom at the time for not including all three component parts of the Simplified Lead-In Service.

23. We argue in this paper that Openreach is incorrect and that Ofcom should revert to the position in the TAR consultation and explain our reasoning in Sections 4 and 5 of this document. Should Openreach's arguments prevail, the cost to the altnet industry would be considerable, with Openreach enjoying an equally considerable over-recovery that would run into millions of pounds a year by 2030/31. Indeed, we estimate that for every 100,000 active end customers altnets would be contributing to a cost over-recovery by Openreach of over £500,000 per year in 2030/31. Thus, if countrywide there were, for example, 2 million active end customers, this would total in excess of £10 million per year.

24. The fundamental purpose of the stranded lead-in adjustment is to ensure that the total costs paid by the altnet for lead-in services, both in and out of service, is broadly equal to the total cost it would pay if it only had in-service (i.e. revenue generating) lead-ins. So, if an altnet had 1,000 live customers and paid for 1,000 Simplified Lead-ins at £10 per year each, then its total costs for use of the Simplified Lead-in Service would be £10,000 per year. However, if that altnet lost 250 customers and gained another 250 customers but still paid for the Simplified Lead-in Service to the lost customers because it did not want to remove the fibre, it would now have 1,250 Simplified Lead-ins for which it paid £10 each, making a total of £12,500 – a cost over-recovery to Openreach of £2,500. To ensure that it only paid the same total as it would pay if there were no stranded lead-ins, this total would need to be reduced by 20%.

25. A final point to stress here is that, absent of a stranded lead-in adjustment, the altnet would be paying an excess amount for, and Openreach enjoying a cost over-recovery on, each individual component to the Simplified Lead-In Service and ***not*** just the final lead-in duct.

4 CALCULATION OF THE LEAD IN SERVICE PRICE

4.1 Development of the Price Structure

26. In this section, we set out a number of equations, which explain how the costs associated with the individual Simplified Lead-in Service components are used to determine the price of the Simplified Lead-in Service itself. As already stressed in the previous section, it is our assertion that an altnet with stranded lead-ins should pay to Openreach the same amount in total as an altnet that only has revenue generating lead-ins – as long as both altnets have the same quantity of revenue-generating lead-ins.

27. In the equations, we address two distinctly different types of adjustments that could be, and in our view should be, applied to the underlying per unit cost that is calculated in the PIA Cost Model. These are:

- A "fair share" adjustment to account for the number of operators using the passive infrastructure – essentially Openreach plus a weighted average number of altnets.

- A "stranded lead-in adjustment", specific to the Simplified Lead-In Service, to take account of lead-in cables that have been deployed, but are no longer in use (and thus not generating revenue for the altnet).

28. The adjustment is the product of the two adjustments in the above bullets.

29. This is broadly in alignment with the table that Openreach included in their response to the TAR Consultation (Volume 4, page 44, Table 4.6), reproduced below. Where appropriate we make references to the columns (the green circles with white numbers) in the Openreach table.

	1		2		3		4		5			6				7	
Simplified lead-in components	Average Length		Average homes / segment		Average Unique Usage		Ofcom unit cost		Component sharing factor			Churn sharing factor			Simplified lead-in price	Combined Sharing Factor	
Dedicated Lead-in	10.5 m	÷	1	=	10.5 m	×	£0.93	×	1.00		×	0.46	(0.90)	=	£4.44	0.46	(0.90)
Single Bore Duct	26.1 m		3		8.7 m		£0.95		0.46	(0.50)		0.46	(1.00)		£1.72	0.21	(0.50)
Joint Box	1.4 exits		3		0.45 exits		£20.38		0.15	(0.15)		0.46	(1.00)		£0.63	0.07	(0.15)
															£6.79		
WFTMR assumptions shown are in red parentheses where different to TAR												weighted sharing factors:				0.52	0.25

30. We then add in the lead-in charge adjustment as per the WFTMR and then the original proposal in the TAR, before making the readjustment according to the proposal by Ofcom in the further consultation.

31. In later sections of this report we will explain why we think Ofcom's latest proposal, laid out in the Further Consultation, is incorrect as earlier documents make it clear that Ofcom has always considered the lead-in adjustment to be quite separate to the Openreach-Altnets fair share adjustment.

Implied per lead-in price paid by Openreach "internally" assuming no altnet present

32. As already discussed, there are three components to the Simplified Lead-In Service:

- joint box,
- lead-in link duct, and
- lead-in duct.

33. These each have a per-unit-usage cost "C" (C-joint, C-link, C-lead-in respectively), where the dimension of the quantity of usage Q differs for each component (per joint box for C_{joint}, per metre for C_{link}, and per connection for $C_{lead\text{-}in}$).

34. The component quantities needed to supply a single Simplified Lead-In Service are shown in column 3 of the Openreach table, and are:

- 0.45 joint box exits (Q_{joint}),
- 8.7 metres of lead-in link duct (Q_{link}), and
- 10.5 metres of lead-in duct ($Q_{lead\text{-}in}$).

35. The implied internal per-unit-usage price P_{LIS} for the Simplified Lead-in Service, absent any altnets, is the sum of the unit cost C for each component multiplied by the quantity Q of that component, with an adjustment for joint boxes to reflect the average number of joint box entries/exits per joint box.

$$P_{LIS} = \left(C_{joint} / \text{ (Avg \# entries/exits per box)} * Q_{joint}\right) + \left(C_{Link} * Q_{Link}\right) + \left(C_{lead-in} * Q_{lead-in}\right)$$

Adjustment to account for one or more altnets being present

36. The second equation, below, now applies the fair shares (between Openreach and the weighted average number of altnets) of the relevant "C", multiplied by the relevant usage "Q", and assuming all connections using the Simplified Lead-In Service are "in service" (revenue generating for the altnet, with no customers having churned away). In the WFTMR, the joint box had a fair share set at 15% (between the 50% of a single bore spine duct and the 25% of a two bore spine duct), the lead-in link duct at 50% (same as the single bore spine duct), and the lead-in duct at 100%. These percentages carried forward into the TAR Consultation document with the exception of the lead-in link duct (single bore spine duct), which was reduced slightly to 46% (for 2030/31) in recognition that the weighted average number of altnets present (where at least one altnet is present) is already greater than one, and that this is expected to grow by the end of the period covered by the TAR. The values

below represent those in the WFTMR Statement.

$$P_{LIS} = \left(C_{joint} * 0.15 * Q_{joint}\right) + \left(C_{Link} * 0.5 * Q_{Link}\right) + \left(C_{lead-in} * 1 * Q_{lead-in}\right)$$

Note here that the fair share for joint boxes is, in effect, an amalgam of the average number of entries/exits per joint box if only Openreach is present and a "fair share" assuming an altnet is also present.

The three component costs are column 4 in the Openreach table, the three fair shares are column 5, and the three component quantities are column 3.

WFTMR adjustment for stranded lead-ins

37. The previous equation results in each altnet paying a fair share of total costs, *before* any consideration of churning resulting in stranded lead-ins. In the WFTMR an extra step was added to this to account for churn, but at the time was unfortunately only applied to the lead-in duct. Ofcom assessed the anticipated growth in stranded lead-ins over the period covered by the WFTMR and then calculated a constant adjustment that could be applied from the first year but would mimic the impact of the proportion of lead-ins that were stranded increasing over the 5-year period. The final adjustment determined by Ofcom was a 10% discount. The final PIA price calculation thus became:

$$P_{LIS} = \left(C_{joint} * 0.15 * 100\% * Q_{joint}\right) + \left(C_{Link} * 0.5 * 100\% * Q_{Link}\right) + \left(C_{lead-in} * 1 * 90\% * Q_{lead-in}\right)$$

Note that in the above and in subsequent equations we use proportions to represent the initial number-of-operators fair share and percentages for the stranded lead-in adjustment.

The stranded lead-in adjustments are column 6 in the Openreach table.

TAR Consultation proposals

38. In our July 2024 submission to Ofcom on behalf of the PIA Coalition[8], we argued that (a) consideration should be taken of the reality of more than one altnet choosing to service each area which would affect the fair share proportion, (b) the stranded lead-in adjustment should be applied to all three components, and (c) that the stranded lead-in adjustment should glide to a substantially higher amount to reflect an expected, cumulative aggregated higher rate of churn. Ofcom accepted these points in the TAR consultation document, and proposed a new PIA price calculation at the end of the TAR period (2030/31) of:

$$P_{LIS} = \left(C_{joint} * 0.15 * 46\% * Q_{joint}\right) + \left(C_{Link} * 0.5 * 46\% * Q_{Link}\right) + \left(C_{lead-in} * 1 * 46\% * Q_{lead-in}\right)$$

[8] Op. cit. footnote 3

Implications of Ofcom's Further Consultation

39. Following Openreach's response to the TAR Consultation, Ofcom, in the Further Consultation, is proposing to remove the stranded lead-in adjustment from both joint boxes and lead-in link duct. Thus, the resulting price for the Lead-In Service would be:

$$P_{LIS} = \left(C_{joint} * 0.15 * 100\% * Q_{joint}\right) + \left(C_{Link} * 0.5 * 100\% * \ Q_{Link}\right) + \left(C_{lead-in} * 1 * 46\% * Q_{lead-in}\right)$$

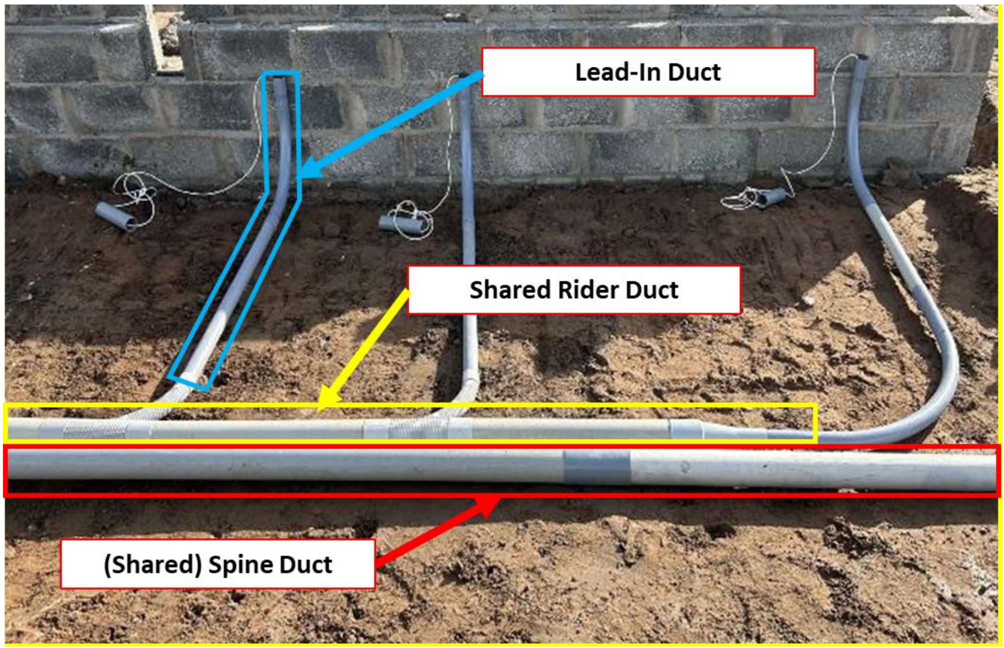
40. This results in a pricing methodology for the Simplified Lead-In service that reverts back to the WFTMR with respect to the treatment of joint box and lead-in link duct and means that Openreach over-recovers as it will receive the number-of-operators fair share cost without any further allowance for the expected ever-increasing number of stranded lead-ins over the TAR period.

41. We disagree with Ofcom's latest proposal and believe that it should revert back to its position in the TAR Consultation, as expressed here in the equation in paragraph 38. We contend that the two adjustments, the Openreach-altnet fair share, and the stranded lead-in adjustment, should be treated as distinct issues – as detailed by Openreach itself in the table reproduced here in paragraph 29. The worked example below has been provided to illustrate this with reference to shared rider duct, the major element of Lead-In Link Duct.

4.2 Worked Example – Shared Rider Duct (the major element of Lead-In Link Duct)

42. As introduced earlier, Shared Rider Duct is duct that runs alongside a group of properties with so-called Swept-Tee (Swept-T) exits to each distinct property. It is duct that is used *purely* for lead-in cables. This is illustrated below in a photograph sourced from an Openreach document on building a fibre network that was produced to assist new site developers.

43. The use of swept-T joints for access to the final lead-in duct(s) renders it totally impractical for altnets to deploy their own sub-ducts in the shared rider duct. Thus, altnets will have to mirror the approach taken by BT/Openreach which would involve inserting a rodder (starting at the end property) down the swept-T joint and along to the relevant joint box. The lead-in cable would then be attached to the rodder and pulled back through the shared rider duct and then on through the final lead-in duct. Alternatively, if the cable is suitable, it could be inserted directly without the need for a rodder.



Source: Openreach[9]

44. We now describe a worked example to show how Openreach's proposal will lead significant cost over-recovery. This example concentrates on the shared rider duct element of the lead-in link duct, though the same logic can be just as easily applied to shared spine duct and indeed joint box entries.

45. In this hypothetical example we use a length of shared rider duct that is used to service six properties. For simplicity, we assume that the annualised cost of this duct is £30 and that Openreach lead-in cables that are in use by end customers generate the same "implied revenue" (£5 per year) for Openreach as altnet lead-in cables. Thus, for the purpose of this example we assume that the shared rider duct element of the simplified lead-in service is £5 per year. Also, prior to the arrival of the altnet, we will assume that all 6 properties are serviced by BT/Openreach.

46. Whilst there is no altnet present, the total revenue generated is £30 (6 * £5 per year), and this is sufficient to offset the total annualised cost of £30. The cost recovery is thus 100%.

47. An altnet then arrives and gains 2 of the 6 properties as end-customers, thus inserting two lead-in cables into the shared rider duct. The total number of lead-in cables now totals 8, but only 6 of these are "revenue generating" (four of the Openreach lead-in cables and the two new altnet lead-in cables). The cost recovery is thus still 100%.

[9] https://www.openreach.com/content/dam/openreach/openreach-dam-files/new-dam-(not-in-use-yet)/documents/help-support/New-Sites-Fibre-Handbook-August-2024-online.pdf

48. After a few more years have passed, the altnet loses its two initial customers, but gains two of the remaining four properties. The total number of lead-in cables now totals 10, with 8 of these being "revenue generating" to BT/Openreach (4 for BT/Openeach itself, and 4 more for the altnet – even though the altnet itself only receives revenue for the two "live" customer lead-ins).

49. The total revenue generated is thus now £40 (8 * £5 per year), and the cost recovery rises to 133% - a clear case of cost over-recovery by Openreach.

50. To reduce the cost recovery back down to 100%, the amount charged to the altnet per installed lead-in cable would need to reduce from £5 per year to £2.50 per year. This would in turn reduce the total revenue generated back down to £30 (£20 for the 4 Openreach lead-in cables in use and £10 for the 4 altnet lead-in cables, of which only two are in use).

5 REVIEW OF OFCOM DOCUMENTS: WFTMR & TAR

51. In this section we review Ofcom's documents in the WFTMR and the TAR to show that it was always Ofcom's intention that the fair share and the lead-in adjustment were independent of each other and designed for different purposes. Ofcom, therefore, should revert to the proposal in the TAR Consultation to ensure Openreach does not over recover its costs and that altnets pay a fair price.

5.1 January 2020 Consultation to the WFTMR

52. We first draw Ofcom's attention to paragraph 5.26 of Volume 4 (Pricing Remedies) to the January Consultation where Ofcom lays out a broad aim that:

> "… competing telecoms providers might use the physical infrastructure over the medium term, [have] the opportunity to earn revenues related to that usage, and [with] the consequential impact on Openreach's opportunity to earn revenues from its own network."

53. Paragraph 5.31, bullet (a), later states:

> "However, we recognise that some customers will ultimately churn, and the competing telecoms provider would then no longer generate revenue from the premises."

54. To us, this logic clearly should apply to anything purchased as part of the simplified lead-in service (accepting that the simplified lead-in service only commenced as a direct result of the WFTMR findings).

<u>Calculation of PIA Rental Charges</u>

55. In paragraph 5.14, Ofcom details the three-step process it has used to calculate the appropriate rental charges for each PIA service, these being:

- Step 1. Determine the regulatory cost base.
- Step 2. Attribute the regulatory cost base between different PIA services.
- Step 3. Calculate unit costs for each service in each year and then set rental charges as a share of these unit costs.

56. Step 3, in practice consists of three steps itself, these being:

    a) Calculate unit costs for each service in each year.

b) Determine an appropriate “fair share” to be paid by altnets, taking into account the amount of usage that one or more altnets would make of the various services

c) Adjusting the above, where deemed necessary, to account for stranded simplified lead-in services.

<u>Determining an appropriate fair share.</u>

57. For lead-in duct, Ofcom determined that the appropriate fair share would be 100%, and for single-bore spine duct that it would be 50%. The former recognised that (with very few exceptions) there would only ever be one user of the lead-in duct itself – either Openreach or an altnet. The latter essentially assumed that were an altnet to replicate Openreach’s own coverage, the altnet would require the same use of single-bore spine duct as Openreach – and as such both operators should bear an equal share of the costs.

58. For lead-in duct, in paragraph 5.31, bullet (a), Ofcom explicitly states that its starting point is that, when using lead-in duct, the altnet “should pay all of the unit cost as it is likely to be the only provider receiving revenue from the premises” – thus 100%.

59. For single-bore spine duct, in paragraph 5.31, bullet (b), Ofcom then states that:

“Where a **second** telecoms provider uses single bore spine duct then we propose that the **costs are shared equally between them**, each paying 50%.” [SPC Network emphasis]

<u>Adjusting for stranded simplified lead-in services.</u>

60. Of the two fair shares discussed above, Ofcom then only adjusts one, the lead-in duct, to account for stranded simplified lead-in services. This is detailed again in paragraph 5.31, bullet (a), where Ofcom states that:

“…we consider that it is appropriate for the share to be less than 100% to ensure a level playing field with Openreach and avoid over-recovery by Openreach. We consider that a share of 90% is appropriate.”

61. The point we would like to stress here is that neither the 100% or 50% were intended, in and of themselves, to account for stranded simplified lead-in services and, whereas the 100% is explicitly reduced to 90%, the 50% remains unchanged.

5.2 WFTMR Statement, Volume 4 (Pricing Remedies)

62. In Table 4.4 of Section 4, Ofcom confirmed the final fair share percentages of 90% and 50% that would be applied to lead-in duct (specifically, not the simplified lead-in service as a whole) and single-bore spine duct respectively. For Joint Box access, the fair share was increased slightly from 14.4% in the January 2020 consultation up to 15% in accordance with the November 2020 consultation.

63. In paragraph 4.86, Ofcom reaffirmed that there is "no uniquely correct answer as to what the shares should be." Ofcom then stated that this was based on an assessment of:

> "…how competing telecoms providers might use the physical infrastructure over the medium term, **the opportunity to earn revenues related to that usage**, and the **consequential impact on Openreach's opportunity to earn revenues** from its own network." [SPC Network emphasis]

By confirming the 90% and 50% fair shares for lead-in duct and single-bore spine duct respectively, Ofcom also "confirmed" that the nominal 100% share for lead-in duct was reduced to take account of stranded lead-ins, but the 50% share for single-bore spine duct contained no such reduction.

64. In paragraphs 4.132 through 4.135 Ofcom provided its decision to implement a simplified lead-in service to replace the hitherto three individual component parts that altnets had to purchase separately. This was generally supported by both Openreach and the altnets due to the removal of the large administrative burden associated with the existing approach. The per-connection quantities for each of the three component parts (lead-in duct, lead-in link duct {single-bore spine duct), and joint box access) would be based on estimates of their average usage.

65. Paragraphs 4.140 through 4.144, whilst included to specifically address any potential for double charging of duct, provide a useful description of what essentially constitutes lead-in link duct. That is that this comprises a mix of shared rider duct and shared spine duct, with the former comprising around 90% of the total distance[10].

66. Shared rider duct is basically a duct used purely for lead-in cables that runs passed a number of properties with a swept-T joint at the property boundaries (either one per property, or

[10] Paragraph 4.144, first bullet states that the lead-in duct plus shared rider duct comprises over 95% of the total lead-in distance. The WFTMR PIA Cost Model provides an average distance for lead-in duct of 11.33 metres, and lead-in link duct of 10.362 metres (both admittedly randomized inputs).

one at the boundary between two adjacent properties). We feel it is important to point out here that the use of swept-T joints for access to the final lead-in duct(s) renders it totally impractical for altnets to deploy their own sub-ducts in the shared rider duct. Thus, altnets will have to mirror the approach taken by BT/Openreach which would involve inserting a rodder down the swept-T joint and along to the relevant joint box. The lead-in cable would then be attached to the rodder and pulled back through the shared rider duct and then on through the final lead-in duct. This is confirmed by Ofcom in paragraph 4.141:

> "Shared rider duct is distinct from shared spine duct since there are no opportunities to splice fibres in joint boxes nor access other parts of the network and therefore these rider duct sections can only carry lead-in cables."

5.3 TAR Consultation, Volume 4 (Pricing Remedies)

67. In Section 4, Ofcom has proposed to change the fair share percentages for both lead-in duct and single-bore spine duct to 46% (with a glidepath to the new percentages over the period covered by the TAR). Although the percentages are the same, the calculations behind them differ.

68. For the lead-in duct, the reduction in the percentage is intended to take account of the increasing likelihood of stranded lead-ins over the period, due to competitive forces producing churn in each operator's customer base. Churn means that even if an operator's total number of customers remains level, they will increasingly be different customers to those originally taking service.

69. For the single-bore spine duct, the reduction in the percentage is intended to reflect an increasing occurrence of multiple altnets covering the same geographic areas and hence competing for the same customer base.

70. In the bullets contained in paragraph 4.46, Ofcom reaffirms the objectives behind its approach to fair shares, with bullets (b) and (c) being particularly relevant:

> "a) It provides good pricing signals for network investment and competition as it reflects the expected long run steady state rather than short term volatility.
>
> b) It results in a level playing field as the allocation of costs are based on an expected equal revenue opportunity in the future.
>
> c) It provides Openreach an opportunity to recover its efficiently incurred duct and pole costs."

71. Paragraphs 4.51 through 4.53 describe how Ofcom has arrived at the 46% fair share for single-bore spine duct. Paragraph 4.53, in particular, states that:

> "c. 24% of single bore spine duct will have more than one altnet accessing that duct using PIA. Therefore, it would be appropriate for 24% of single bore spine duct to have a fair share of 33% (or in the very rare circumstances 25%) with the remaining single bore spine duct having a 50% fair share. This results in a weighted average fair share of c. 46%, which we propose to use to determine PIA charges for all single bore spine duct."

72. We would point out here that the reasoning used by Ofcom to arrive at the 46% for single-bore spine duct is based solely on the anticipated likelihood of more than one altnet being present at the end of the review period. **In particular, no additional adjustment has been proposed to take account of stranded lead-ins utilising single-bore spine duct.**

73. In paragraph 4.58 Ofcom stated that it now considered it appropriate to the lead-in duct "discount rate" to all three components of the simplified lead-in service. This presumably was in response to the arguments made by ourselves and other altnets that it was inappropriate to only apply the stranded adjustment to the lead-in duct, since the same logic applied to all three component parts of the service.

6 CONCLUSION

74. In this report we have shown that the number-of-operators-present fair share of Openreach costs paid for by altnets and the stranded lead-in adjustment are entirely independent of each other. Openreach's argument that the adjustment should not be applied to the joint box and lead in link is therefore incorrect and will lead to overpayment by altnets and significant cost over-recovery by Openreach.

75. To support this argument, we have reviewed the relevant Ofcom documents from both the WFTMR and the TAR to show that Ofcom's proposal in the TAR Consultation document is consistent with everything they had previously stated.

76. In conclusion, therefore, Ofcom should reject Openreach's proposal to remove the stranded lead-in adjustment from the joint box and lead in link duct and leave the price-setting methodology for the Simplified Lead-in Service as set out in the TAR Consultation document.