



Allocation of Fibre costs

Submission to
the Telecoms
Access Review

NON
CONFIDENTIAL

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Summary

1. In the November TAR consultation Ofcom updated its charge control modelling to correct what it described as erroneous assumptions and to improve the accuracy of BT's reporting. These are errors, that we initially brought to Ofcom's attention in December 2024, were not taken into account in Ofcom's 2025 March Consultation. The further Consultation in November addressed this omission.
2. Ofcom recently published stakeholder responses to its November TAR consultation including a VodafoneThree ["VF3"] sponsored report authored by Frontier Economics¹ ["Frontier"] and a follow up submission by VF3² covering the same points as the Frontier report. Openreach provides a brief response to these submissions below.
3. Frontier does not appear to challenge Ofcom's assessment that its original charge control modelling contained errors. Instead, it appears to argue that Ofcom should not correct these errors in case there are other offsetting errors it doesn't know about, and/or because Frontier doesn't understand how the corrections have been made. Alternatively, Frontier argues that if Ofcom does correct the error, it should do so in a different way.

As explained below:

- 3.1. Frontier's preferred approach to correcting the error does not reflect the way the network is used.
- 3.2. Frontier's suggestions that Ofcom should ignore the error as there may be other errors that Openreach has not brought to its attention is not reasonable. It ignores the extensive efforts by BT over many years to identify, and inform Ofcom and stakeholders, of all its methodology changes, whether potentially beneficial to Openreach or not. Further, our regulatory accounts are subject to independent audit and Ofcom oversight. This means that where errors are found, as in this case, the auditors and Ofcom expect them to be corrected.

¹ [vodafonethree-2-frontier-report.pdf](#)

² [Vodafone Three](#)

Lastly, the Change Control Notification outlining the change and its impact was published on 3 Oct 2025.³

4. Frontier's key line of argument is essentially that while FTTP utilisation is low during rollout, it is inappropriate to allocate costs based on current network usage as the true cause of these costs is the long-run state of the network.
5. On that basis Frontier raises concerns that Ofcom's proposed allocation of fibre costs does not reflect true cost causal principles, that it will lead to cross-subsidisation of FTTP build and will potentially lead to over-recovery in future if Ofcom implements FTTP regulation under the fair bet using economic depreciation⁴. On the basis of these arguments Frontier argue that Ofcom should not change the fibre cost allocation in its charge control proposals.
6. We lay out below why Frontier's concerns are unfounded and that Ofcom should reflect the new fibre cost allocations in its final Statement. In summary:
 - 6.1. There is compelling objective evidence to show that the change in Core Junction Fibre (CJF) cost allocation proposed by Ofcom accurately reflects the use of the network now and in the future. VF3 appear to accept that the proposal moves away from assumptions to real data e.g. route: radial distance 1.2 to actual route distance.⁵
 - 6.2. It is evident that the new access spine fibre cost allocation methodology will better reflect the actual relative usage of these cables by revenue-generating services i.e. Leased Lines, FTTC and FTTP because it is matched to the number of fibres used to provide the services.
 - 6.3. Frontier conflates two separate topics – Fair Bet assessment and potential future FTTP charge controls – and this results in an unfounded and erroneous conclusion that over-recovery of costs is likely as a result of the cost allocation proposals. The key change, the CJF cable cost allocation, relates to the cost of assets not used by FTTP, except in exceptional case, now or in the future. VF3 appear to accept this is the case describing the CJF network as "becoming obsolete"⁶.

³ [Change Control Notification: Part 1 - 3 October 2025](#)

⁴ [vodafonethree-2-frontier-report.pdf](#), 4.4.2

⁵ [Vodafone Three](#) para 2.b

⁶ [Vodafone Three](#) para 2.a

7. Frontier further suggest Ofcom should be extremely sceptical about basing charge controls on new methodologies which have been proposed or implemented by BT in the period immediately before charge controls are set⁷. We consider Ofcom has been very rigorous and has carefully reviewed and scrutinised the evidence brought before it that led it to propose changes and Frontier's observations in this respect are unfounded. This investigation established that changes are more cost causal and to ignore these changes would lead to inefficient outcomes.

Cost causality and cross subsidisation

8. Frontier's arguments are based on the presumption that the counterfactual was correct to begin with. By treating the status quo cost allocation as the "right" approach (and therefore any change from this is harmful or distortive), Frontier relies on this asymmetric reasoning by not considering potential errors prior to the proposed changes. Frontier has not addressed the possibility that cost allocations prior to the change were less cost causal than the proposed allocation, as in fact is the case.
9. The key change is the allocation of Core Junction Fibre (CJF) cable costs. Ofcom has compelling evidence that the previous approach was plain wrong and proposed approach is accurate . The previous allocation method, designed prior to scale FTTP network build, was based on a flawed assumption that FTTC and FTTP services always use CJF cables to connect child exchanges to parent exchanges.
10. In fact, we have evidenced that the above assumption is erroneous: it is not in line with our planning policy and has not been adopted, apart from in some exceptional cases, to build the new fibre network.
 - 10.1. This is further evidenced by Openreach engineering routing data which shows that CJF cables are used for FTTP/FTTC services infrequently rather than all of the time.
 - 10.2. Further, the scale network build programme is now mostly finished and the cables installed to connect passive optical network (PONs) to distant headends are now generally built and unalterable. As a result, there is little risk of extensive use of CJF cables for FTTP services in future.

⁷ [vodafonehree-2-frontier-report.pdf](#) , 4.3

- 10.3. The new methodology calculates CJF cost allocations based on actual lengths of CJF cables used across Main Link, FTTC and FTTP services i.e. the actual use of the network.
11. Based on the above, we consider Ofcom has compelling objective evidence to show that the change in CJF cost allocation accurately reflects the use of the network now and in the future. This is in contrast to Frontier, who have not addressed the possibility that cost allocations prior to the change were not cost causal. Further, not only does this omission fundamentally undermine Frontier's argument that the proposed allocation does not reflect true cost causal principles but also undermines its argument that the change will lead to cross-subsidisation of FTTP build i.e. CJF costs will be allocated to Leased Lines because they are being used by Leased Lines.
12. In relation to Spine fibre, VF3 say the methodology is based on the number of live customers connected to the FTTP network "..... low early FTTP utilisation is a temporary deployment artefact, not a justification for shifting costs onto Ethernet"⁸. This is not the case, once a fibre is deployed to carry FTTP services it attracts an allocation of costs, regardless of whether it is supporting a live customer or not.
13. Further, we agree with Ofcom that ".... *Access Spine Fibre, the new cost allocation methodology will better reflect the actual relative usage of Access Spine Fibre by revenue-generating services*"⁹. In this respect it addresses one of Frontier's concerns that the allocations should reflect future use.

Future over-recovery

14. Frontier say that the fair bet principles would suggest that by applying accounting depreciation now and economic depreciation later, this will lead to over-recovery of costs.¹⁰ This line of argument ignores the fact that CJF cables were not extensively used for WLA services and will not be used for them, in future. Any link to fair bet and, as a result, over-recovery is moot in this respect.

Ofcom review and scrutiny

15. Frontier opines that Ofcom should be extremely sceptical about basing charge controls on new methodologies which have been proposed or implemented by BT in the period immediately before charge controls are set. In December 2024 BT (Openreach) did not know that Ofcom was planning to introduce a cost-based charge control for leased lines in Area 3. This had not been the policy in WFTMR and in December 2024 BT (Openreach) reasonably assumed that the WFTMR policy

⁸ [Vodafone Three](#) para 13

⁹ Ofcom, November TAR consultation, para 5.17

¹⁰ [vodafonethree-2-frontier-report.pdf](#), 4.4

would continue into the TAR. The corrections proposed by Openreach in December 2024 were therefore not in response to a known upcoming charging control.

16. Frontier further suggests that Ofcom has been deficient in its review of the new cost allocation changes without basing this comment on any objective evidence.
17. Since 2015 BT has been required to publish all its proposed methodology changes in an annual Change Control Notice to be published in March ahead of the July publication of the RFS. Ahead of publication of each CCN, BT engages extensively with Ofcom to discuss the proposed changes and the reasons for them.
18. During that time, BT has proposed numerous corrections and improvements to the allocation methodologies. These changes are identified as part of an ongoing process of review which identify errors, the availability of better data or the identification of simpler and less error prone calculation methods, or feedback from stakeholders, including BT's auditors KPMG, or Ofcom decision that from time to time would warrant a change. These have had the effect of moving costs both into and out of regulated services. As far as we are aware, at no point since 2015 has Ofcom or any stakeholder ever suggested that the changes identified in the CCN represent a biased selection of changes that unfairly benefit BT or Openreach.
19. In December 2024, BT informed Ofcom of the need to correct errors in the way some fibre costs were being allocated. BT was considering inclusion of these changes in the March 2025 CCN and to reflect them in the 2024/25 RFS. Following review with Ofcom, it became apparent that Openreach did not have the time to provide all the data in the format and to the required level of assurance that Ofcom needed to review the proposed change prior to the March CCN cutoff date. Even if Openreach could have supplied the data, Ofcom did not have the bandwidth to properly review the change prior to the CCN March cutoff. As a result, the changes were not made in RFS25.
20. Rather than just accept the proposed changes, Ofcom, instead conducted a full-blown and comprehensive review that led it to accept the changes proposed in the November consultation.
21. This review was complete and wide ranging and included, to our knowledge:
 - A prolonged series of bilateral and iterative meeting and discussions with Openreach regarding the appropriateness of the changes,
 - Numerous Openreach responses to questions arising from those meetings,
 - Extensive data gathering to assess and model the potential impacts of the changes

- External assurance from BT's auditors (KPMG), in the form of Agreed Upon Procedures (AUP), as to the accuracy of the assessment data.
- An advanced copy of the CCN in relation to the change was published on 3 October 2025.

22. Once Openreach provided the data in the required format and to the required level of assurance, the change in the allocation methodology was subject to extremely significant scrutiny by Ofcom. Following completion of that review, Ofcom agreed that the issues identified by BT were indeed errors that should be corrected in the RFS. It also accepted that the approach proposed by BT in 2024 was appropriate. BT will therefore include the necessary corrections in the March 2026 CCN, consistent with the early CCN published 3rd October 2025, and the 2025/26 RFS.

END