



Telecoms Access Review:

Further consultation on leased lines market analysis and various pricing issues

Virgin Media O2 response

December 2025

Non-confidential Response

1. Introduction

1. Virgin Media O2 (“**VMO2**”) welcomes the opportunity to respond to Ofcom’s further consultation¹ on leased lines market analysis and various pricing issues under the Telecoms Access Review (“**TAR**”) 2026–31 (the “**Consultation**”).
2. We continue to strongly support Ofcom’s forward-looking approach to this market review; in particular, the recognition that altnet consolidation is likely and that this anticipated outcome has the potential to develop and strengthen material and sustainable competition to Openreach. This is a necessary condition to unlock the opportunity for future, permanent deregulation of Openreach that Ofcom seeks to eventually achieve.² Ofcom should reflect this broad outlook fully in its market analysis, both with respect to the treatment of potential consolidation in the Leased Lines Access (“**LLA**”) market and in recognising Physical Infrastructure Access’ (“**PIA**’s”) current and potential longer-term effects on network build distances.
3. The remainder of our response is structured as follows:
 - **Section 1** introduces our response;
 - **Section 2** sets out our views on Ofcom’s clarification regarding consolidation and the evidence on LLA buffer distances;
 - **Section 3** addresses Ofcom’s proposal for amending the simplified PIA lead-in charges (in particular, the implications for charge control design principles); and
 - **Section 4** contains our responses to Ofcom’s Consultation questions.
4. As Ofcom works towards concluding its TAR Statement, we urge it to build on the important progress achieved to date under the Wholesale Fixed Telecoms Market Review (“**WFTMR**”) framework. The TAR period should carry forward that momentum by translating prospective competition into material and sustainable competition across the UK as far as possible. In doing so, Ofcom must also fulfil the objectives set at the launch of TAR by

¹ <https://www.ofcom.org.uk/phones-and-broadband/telecoms-infrastructure/further-consultation-on-leased-lines-market-analysis-and-various-pricing-issues>

² TAR, Vol.1, §2.59

creating conditions that enable rival networks to overcome Openreach's incumbency advantages.

5. Equally important, Ofcom's market analysis and the resulting Significant Market Power ("**SMP**") remedies must be genuinely forward-looking. They should maximise the potential for material and sustainable competition to develop so that once such competition emerges, Openreach can eventually be deregulated in those areas to the benefit of end-users. In practice, this means fully accounting for reasonably foreseeable developments (like altnet consolidation and the increasing use of PIA) in order to enable these outcomes, rather than risk jeopardising these outcomes by inadvertently assuming them away.

2. Market consolidation and buffer distances

6. In the Consultation, Ofcom provides further commentary explaining how it intends to consider the potential impact of consolidation in the LLA market, and its proposal to change the buffer distance parameter in the network reach model to reflect new evidence regarding the use of PIA for LLA services.
7. We address each of these issues in turn below, noting that a common thread runs through both topics: a pessimistic or narrow assessment of these factors could curtail future developments and risk that areas which are prospectively competitive never become actually competitive during the TAR period. Ofcom should therefore fully reflect foreseeable future outcomes in its approach to market definition, maximising the chance that these developments do crystallise.

Consolidation

8. We reiterate³ that we welcome Ofcom's view, as set out clearly in the TAR proposals for the WLA market, that altnet consolidation may deepen and broaden material and sustainable competition to Openreach over the TAR period. As Ofcom notes in the Consultation, VMO2 was concerned that insufficient weight had been given to the potential impact of consolidation in the LLA market.⁴ We appreciate that Ofcom has responded by elaborating on its view of consolidation's impact in the LLA market in this further Consultation.
9. Ofcom observes that not all consolidation scenarios would have the same impact on the extent of material and sustainable competition to Openreach. For example, an acquisition by CityFibre or VMO2 could leverage existing capabilities to increase effective competitive pressure on Openreach, whereas a merger between two smaller altnets that are not

³ For example, VMO2, TAR response, §56, <https://www.ofcom.org.uk/siteassets/resources/documents/consultations/category-1-10-weeks/consultation-telecoms-access-review-2026-31/main-documents/stakeholder-responses-to-our-march-2025-consultation/vmo2.pdf?v=402087>

⁴ Ibid., §§106-114

currently competitors LLA would not have the same effect.⁵ We agree with Ofcom’s logic on this distinction. We also agree that this distinction is important.

10. However, Ofcom then states that because it is uncertain whether transactions involving that particular subset of parties will occur, these prospective developments are too speculative to be considered “expected or foreseeable”⁶ for the purpose of market analysis. In our view, this sets the bar for reasonable foresight too high.
11. We note that both CityFibre and VMO2 (or their shareholders) have publicly expressed ambition and intent to participate in the altnet consolidation process. Therefore, while it is not certain that consolidation will occur (or in exactly what form), the possibility is entirely foreseeable. [§<].
12. It is also possible that transactions could occur between altnets that are currently not material players in the LLA market and the established LL-only providers that Ofcom has identified. Furthermore, one can even envision sequential transactions during the TAR period: for example, two smaller altnets might merge or partner, and that combined entity is subsequently acquired by a larger operator that exerts actual or potential material competition during the TAR period.
13. Ofcom notes that it will continue to monitor market developments prior to the TAR Statement in case further evidence emerges about the likelihood of a relevant transaction.⁷ While we welcome this vigilance, it still effectively sets the hurdle too high, as such evidence could easily emerge after Ofcom’s Statement is published.
14. Therefore, despite Ofcom’s additional commentary, we believe this approach remains significantly inconsistent with its treatment of prospective consolidation in the WLA market. It effectively treats the impact of altnet consolidation as analytically orthogonal in WLA versus LLA. For instance, the potential scenario of CityFibre acquiring an altnet is weighted as foreseeable and impactful in WLA, but that same event is deemed too speculative to carry any weight in LLA. This is internally inconsistent, given that the competitive effect would plausibly stem from the very same underlying event.
15. This inconsistency is important, because SMP remedies flow directly from Ofcom’s market analysis. A narrow interpretation of prospective competition in LLA could become self-

⁵ Consultation, §§3.13-3.14

⁶ Ibid., §3.17

⁷ Ibid.

reinforcing. If Ofcom assumes future events are too uncertain to reflect in its market analysis and consequently identifies certain areas as Area 3 as opposed to Area 2 in LLA, those measures could inadvertently undermine the business case for competitors to roll out LLA services or for investors to fund acquisitions in those areas. Prospective customers may also be more inclined to stick with the incumbent and the regulated (and price-controlled) services currently proposed in TAR. These factors would likely reduce the attractiveness and value of potential altnet acquisitions, thereby limiting the very emergence of competitive networks that correspond to Ofcom's objectives for WFTMR and now TAR.

Buffer distances

16. We welcome Ofcom's revised analysis and its collection of additional information to inform its market analysis of build distances, specifically regarding the impact PIA has had on operators' willingness to dig. Having reviewed this information, Ofcom notes that the evidence suggests PIA has materially improved the economics of building LLA extensions, enabling providers to build further than when considering dig distances alone.⁸
17. As we noted in our TAR consultation response⁹, there are several reasons to expect that some altnets currently utilising PIA to deploy networks for WLA end-users may evolve to serve the LLA market during the TAR period. Many of these altnets can be considered 'PIA-first' (or perhaps even effectively 'PIA-only') in their deployment approach. It follows that they would likely exhibit a similar willingness to build in the leased lines context as the subset of providers¹⁰ for whom Ofcom collected data on PIA-based extensions. In other words, an operator that today relies heavily on PIA for its WLA network could, if it turns its focus to business connectivity, be willing to extend its network for leased line customers far beyond the traditional 50m threshold proposed in TAR, by using PIA.
18. Furthermore, the prospect of consolidation is highly relevant here as well. If an altnet that so far has focused only on WLA were acquired by one of the providers included in Ofcom's analysis¹¹, which already utilises PIA for leased lines, it is reasonable to expect that the same extended-build approach would be applied across the acquired network footprint.

⁸ Ibid., §3.36

⁹ VMO2 TAR response, §108-109

¹⁰ Consultation, Table 3.2

¹¹ Ibid.

19. Although the sample of data available to Ofcom is limited in some cases (with few observations per provider) it consistently shows a demonstrated capability and willingness to build well in excess of 100m when utilising PIA. Looking ahead, continued improvements to the PIA product, potential evolution of (currently) WLA-focused altnet business models, and the possibility of consolidation all point to a foreseeable increase in the use of PIA for LLA customer-specific extensions during the TAR period.
20. As we noted in the context of consolidation, if Ofcom does not reflect the greater build appetite that PIA enables, it risks dampening that very appetite. By underestimating the role PIA could play, Ofcom may inadvertently constrain the willingness of existing and prospective network providers to invest in reaching these longer distances using PIA, or developing plans to acquire new network footprint to extend their existing practices.
21. We believe Ofcom should seek to enable the growth of material and sustainable competition during the TAR period and so reflect the emerging evidence of a greater willingness to build into its geographic market definition by adapting its buffer distance assumption accordingly.

3. PIA lead-in charge amendments

22. In the Consultation, Ofcom proposes to revise the approach it originally set out in TAR for the charge control of PIA lead-in ducts. It now intends to remove the discount factor from the lead-in link and joint box charges. We do not comment here on the specifics or appropriateness of the underlying price level change itself. However, in light of this proposed revision, we believe any adjustment to lead-in charges should be introduced at the start of the TAR period as a one-off Starting Charge Adjustment (“**SCA**”), rather than via the glidepath approach that Ofcom has proposed. Accordingly, our comments below focus on Ofcom’s charge control design principles and their application in the case of the lead-in charge.
23. In our view, Ofcom’s proposal to apply a glidepath to the revised lead-in charges is not appropriate in this instance. The specific circumstances surrounding this price change, and the rationale underpinning it, point clearly to an SCA as the more proportionate and analytically sound design approach – a conclusion grounded in Ofcom’s own charge control design principles.
24. Ofcom’s general preference¹² for glidepaths is based on the view that they promote productive and dynamic efficiency by allowing the regulated firm to retain the benefits of unanticipated cost reductions, and that they help avoid price discontinuities while providing a stable backdrop for investment. However, none of these justifications apply in the case of the PIA lead-in pricing change. The proposed reduction in charges is not the result of Openreach achieving efficiency gains. Nor is this a scenario where we need to incentivise Openreach’s future cost-cutting through a multi-period control mechanism.
25. Rather, the proposed charge control adjustment stems from Ofcom’s revised assessment of how lead-in costs should be attributed – specifically, recognition that the previous methodology risked over-recovery by Openreach in circumstances where communications providers (“**CPs**”) leave lead-in fibre in situ following customer churn.¹³ This is a methodological correction to prevent CPs being overcharged given this practice is already

¹² TAR, Vol.4, §§6.7-6.11

¹³ Ibid., §§4.54-4.58 and Consultation, §§4.14-4.16

observed today, and to ensure Openreach does not over-recover its efficiently incurred costs. It is not a reward for efficiency; therefore, it provides no justification for a glidepath.

26. Ofcom's framework acknowledges¹⁴ that an SCA may be more appropriate where existing prices are significantly misaligned with costs for reasons unrelated to efficiency or volume changes. That is precisely the case here. Applying a glidepath would only delay the implementation of a fairer, more accurate cost attribution, thereby prolonging a known distortion in the market. Under a glidepath, PIA CPs would continue to pay above-cost prices for lead-ins during the initial years of the control period, i.e. in years that are likely to be critical for those CPs' customer acquisition and network expansion plans. Such an outcome would undermine economic efficiency and distort competition, which runs contrary to Ofcom's objectives.
27. We also note that Ofcom's concern about price discontinuities¹⁵ is unlikely to be material in this case. An immediate SCA would simply align the lead-in charge with the long-run efficient level that Ofcom's glidepath is already moving toward. Moreover, the indicative low/base/high price scenarios¹⁶ that Ofcom has modelled for 2030/31 under the revised approach are broadly in line with (or even above) the lead-in charges that prevailed during the WFTMR period. As such, implementing an SCA now would not represent a disruptive step-change, but rather a prompt reversion to pricing levels that are already familiar to market participants. In our view, this would enhance predictability and provide greater clarity from the very start of the new control period.
28. Finally, we do not believe that an SCA would undermine Openreach's incentives or investment behaviour. The price adjustment in question does not penalise any efficiency achievement, nor does it strip away a legitimate reward for past cost reductions. Instead, it ensures fair cost recovery and sends the correct pricing signals to CPs at a time when take-up and competitive network build are expected to accelerate. In this context, implementing an SCA better serves Ofcom's objectives of promoting efficient investment, supporting sustainable competition, and ensuring a level playing field.¹⁷
29. In summary, the specific circumstances of the lead-in charge control (including the nature of the price change, the absence of any underlying efficiency gain, and the potential for

¹⁴ TAR, Vol.4, §6.9

¹⁵ Ibid., §6.8

¹⁶ Consultation, Table 4.2

¹⁷ For example, TAR, Vol.4, §4.5, §§4.11-4.12, §4.56 and §§4.83-4.84

competitive distortion if the change is delayed) all point to an SCA as the appropriate design choice. We therefore urge Ofcom to reconsider the glidepath approach and adopt an SCA for PIA lead-in pricing from the outset of the 2026–31 control period.

4. Consultation question responses

30. Below we provide our responses to Ofcom's Consultation questions. These should be read in conjunction with our wider response, where applicable.

Question 3.1: Do you agree with our reasoning on the impact of consolidation? Please set out your reasons and supporting evidence for your response.

We strongly agree with Ofcom's view that consolidation is likely to occur during the TAR period and that consolidation has the potential to be pro-competitive. In particular, we concur that consolidation led by players who are (or could become) material and sustainable competitors is likely to exert the strongest competitive constraint on Openreach. An acquisition by a major operator such as CityFibre or VMO2 would indeed have the greatest potential to strengthen competition.

However, we do not agree with Ofcom's stance that, because of uncertainty, the potential effects of such consolidation should be discounted in the market analysis, SMP assessment, and ultimately the remedies. Ofcom's reasoning – and its implicit treatment of consolidation – in LLA still differs from the approach it proposed to adopt in WLA. By discounting the potential impact of consolidation in LLA due to uncertainty, Ofcom risks reducing the likelihood of that pro-competitive outcome actually emerging. In our view, taking such a narrow approach creates a self-fulfilling prophecy: the remedies imposed (under an assumption of little change) would likely lower the incentives for investors to pursue acquisitions or for operators to roll out expanded capabilities, and could make prospective customers more inclined to stick with the incumbent's regulated offerings. This would collectively diminish the opportunity for consolidation-driven competition to develop, which is precisely the outcome Ofcom's analysis would have predicted; thus reinforcing the original assumption.

Question 3.2: Do you agree with our revised proposals relating to the buffer distance? Do you have a view on the most appropriate value of the buffer distance? Please set out your reasons and supporting evidence for your response.

Yes. We agree that Ofcom should incorporate the new evidence on operators' willingness to build network that has emerged from its analysis of PIA usage. Ofcom's findings show that PIA can play an important role in an operator's calculus when determining network reach and the ability to supply services. Put simply, the evidence indicates that the availability of PIA has significantly increased how far (at least a subset of) operators are currently prepared to extend their networks for a leased line connection. Based on the anonymised information provided it

would seem that at least 100m customer-connections have been deployed by the sample of operators able to provide this information, with many observations going materially further than that level.

Looking forward, it seems entirely plausible that PIA-based operators will have a growing appetite to enter the LLA market and leverage their experience using PIA in the WLA market to offer leased line solutions. Likewise, through consolidation, a similar outcome could be achieved – for instance, if a currently WLA-only (PIA-reliant) operator were combined with an existing LLA operator that utilises PIA, the merged entity could readily use PIA to serve business connectivity customers. We believe Ofcom should view the evidence it has gathered to date as indicative of a trend that may become more pronounced during the TAR period.

These scenarios are plausible and, in our opinion, likely. As noted in our discussion of consolidation, if Ofcom's remedies do not account for these prospects, it only becomes more likely that the competitive outcome will be curtailed. Failing to adjust the buffer distance (or otherwise account for the extended reach PIA offers) would reduce the incentive for operators to invest in serving that additional demand, since that demand might instead be pre-emptively met by regulated incumbent services. In summary, we support Ofcom's revised proposals to increase the buffer distance to reflect the demonstrated willingness to build further, and we would encourage Ofcom to choose a value for the buffer distance that fully captures this emerging trend.

Question 4.1: Do you agree with our revised approach to the application of discount rate when calculating the charge control for simplified lead-in duct?

VMO2 has no material comments on Ofcom's revised approach to applying discount rates to the simplified lead-in duct product. However, if Ofcom proceeds with this approach, we believe it should implement the resulting price change as a one-off SCA in the TAR charge control, rather than via a glidepath. The rationale for Ofcom's general preference for glidepaths does not apply in this circumstance; on the contrary, the reasons behind these changes align with the conditions under which an SCA is the more appropriate.

Question 5.1: Do you agree with our revised proposals relating to charge controlling active LLA services in LLA Area 3 and dark fibre services in the LLA and IEC markets?

VMO2 has no material comments on these proposals at this time.

Question 6.1: Do you agree with our revised proposals relating to the estimation of Openreach sales product management costs within our dark fibre charge controls?

VMO2 has no material comments on the specific proposed changes at this time. However, we concur with the observations made by UKCTA that it is unfortunate these changes have been

introduced in isolation and so late in the TAR consultation period. In our view, such adjustments would have been better considered as part of a more holistic review, rather than on a piecemeal basis at this stage.