1. The proposed attribution changes to the 2026/27 Regulatory Financial Statement by BT Group appear commercially motivated, being designed to obscure, dilute, or defer recognition of the over-recovery that Openreach has already achieved, and is forecast to achieve, in the leased lines market over the forthcoming period. The changes, if adopted in price setting are likely to distort retail competition by imposing a disproportionately greater impact on rival retailers than on BT's own lines of business. The policy consequences of these changes are so significant that they cannot be left to BT Group's discretion; indeed, there is a legitimate expectation that these changes should be subject to robust, independent policy consideration by Ofcom to ensure that any shift aligns with statutory duties, preserves competitive neutrality and aligns with the 10-year policy framework established under the WFTMR to provide stable, predictable, and transparent regulatory outcomes.

2. Situation

BT Group proposed Openreach's transition to a "onefibre network" with ~950 Optical Handover Points (OHPs) fundamentally changing the role and cost causation of legacy fibre assets. Three proposed reallocations / methodology changes risk distorting charges for leased lines:

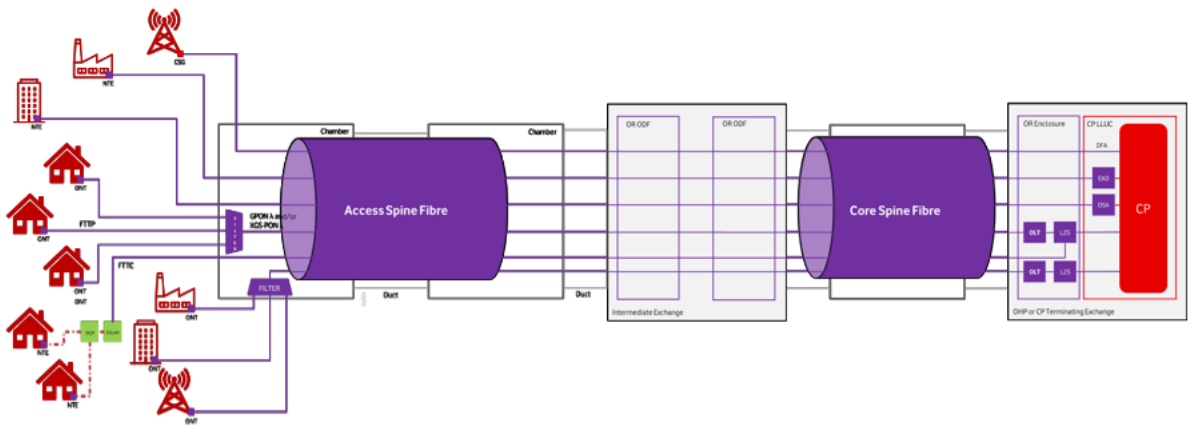
a) Core and Junction Fibre (CJF) is becoming functionally redundant in its historic role linking child to parent exchanges. BT Group's proposal to alter the longstanding CJF allocation between broadband and leased lines at this late stage would reimpose backward-looking, residual costs on services that neither caused nor benefit from that legacy function. Users of Main Link services would be most affected. ✂

b) The proposal to change the distance calculation of radial distance times 1.2 to actual distance introduces geographically de-averaged prices for services without adequate policy consultation and Ofcom oversight. This proposal will adversely impact businesses located in more remote areas or in geography that include rivers or other natural obstructions. ✂

c) Access Spine Cable, shifting from a capacity (bandwidth) allocation to fibre utilisation misattributes shared transport costs, inadequately recognising the cost causation which drives the need for incremental fibre. Fibre count reflects topology and aggregation choices, whereas upgrades are driven by traffic capacity thresholds (wavelengths/optics/aggregation uplifts).

To ensure charges remain aligned with regulatory principles, true cost causation, forward-looking efficiency, and competitive neutrality, we ask Ofcom to scrutinise these reallocations against its policy objectives. The proposed changes do not align with the principles set out in the WFTMR of delivering stable, transparent, and predictable regulatory outcomes. Until full policy assessment and consultation have been undertaken in line with established procedure, Ofcom must maintain the current approaches.

The picture below provides a simplified example of how leased lines and broadband can converge over the same infrastructure.



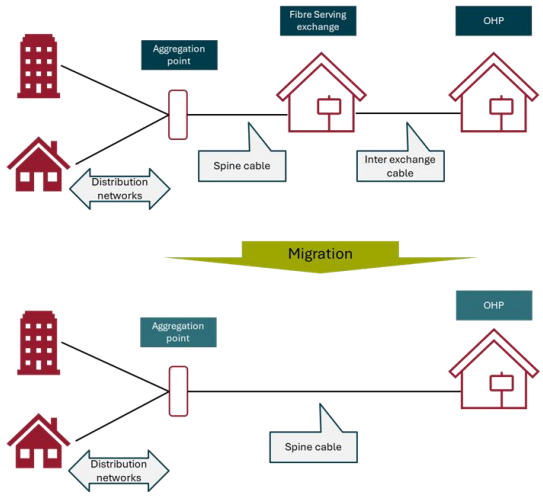
Source: VodafoneThree

The following sections set out the key policy appraisal questions for Ofcom and our assessment of whether each proposed cost reallocation or methodological change is relevant, fair, and consistent with Ofcom's policy, competition,

and consumer protection objectives, including whether it has been subject to adequate consultation and regulatory scrutiny.

3. Allocation Concerns: Core Junction Fibre (CJF)

CJF: The asset's historic function of connecting child to parent exchanges is becoming redundant under the "one-fibre network" and ~950 OHP architecture where all connections are direct to the "parent" which is renamed as enduring OHP. Changing the long-standing allocation approach now risks distorting charges at precisely the point CJF ceases to perform its original role. Legacy costs should simply be eliminated.
The top section of the diagram below shows the interexchange cable which is the CJF.



Source: Frontier Economics

4. Questions for Ofcom:

a. What is the annual total allocated to CJF in the RFS?
b. Of the CJF total, how much is being transferred into leased lines, how much is already attributed to leased lines, and how much remains with FTTC and other legacy services?
c. If CJF's historic function is redundant, what do the ongoing CJF costs represent (e.g., fibre in the ground, care & maintenance)? Why do they remain high?
d. Has any of the cost been eliminated?
e. Given CJF's end of life status in its original role, why alter the longstanding allocation methodology now, when such change would distort charges during transition?

5. Our position

Under the emerging "one fibre network" architecture and the reduction in handover points, the Core and Junction Fibre (CJF) asset has effectively reached the end of its functional life, its historic role linking child and parent exchanges is becoming obsolete. We expect that some of the underlying fibre, which is not end of life, can ultimately be reused or reclassified potentially forming part of the access spine cable. Openreach is retiring legacy copper services and migrating to a unified fibre network that requires far fewer exchange buildings, removing the operational purpose for CJF altogether. We highlight, Openreach controls both the architecture and the sequencing of this transition, accelerating FTTP under competitive pressure while slowing Ethernet transformation, including delaying EAD2 and limiting (due to commercial terms) CP migrations to the first cohorts of exchanges scheduled for closure. This product by product sequencing generates residual CJF costs which are then reattributed to remaining services, even though those services neither caused nor benefit from the legacy function. Amending a longstanding allocation methodology at precisely this point in the asset's redundancy would distort cost causation by shifting backward looking, nonefficient residual CJF costs onto Ethernet and other remaining products. Such an outcome is incompatible with regulatory pricing principles that require charges to reflect true cost causation, adopt a forward looking perspective, and align with the efficient long run incremental cost of service provision. Reallocating inefficient residual costs during this transition would therefore lead to over recovery and nonneutral, distortionary outcomes that fail the basic tests of fairness and efficiency. We note BT's Regulatory Financial Statements use Current Cost Accounting (CCA), which revalue fixed assets

and inventory at their current replacement cost or net realisable value, typically yielding higher valuations than under a Historic Cost Accounting (HCA) approach. This method supports regulatory goals like encouraging market entry but can complicate cost allocation changes between markets.

BT will have benefited from higher CCA-based returns on its assets, as reflected in its charges, throughout the entire lifecycle of existing assets. Under HCA, the majority of these assets would have been fully or largely depreciated. Consequently, if legacy services are discontinued, only minimal residual asset costs would be allocated to the remaining products. In contrast, with CCA, a greater proportion of the asset cost is preserved, thereby influencing the unit costs associated with the remaining products. In this case, unless appropriate adjustments are made to the CCA approach, there is a significant risk of over-recovery. In this case fibres are expected to be either end of life or will be reallocated to serving other future services such as access spine cable (via a fibre splice).

Since CCA is intended to be forward-looking, the shared assets among LLA, IEC, and FTTC would not have been repurchased as replacements. This leads to an accounting inconsistency if the CCA method is not adjusted to accurately represent the true forward-looking asset that would be implemented, rather than reflecting an outdated asset previously shared across markets.

This over-recovery can distort pricing signals and potentially lead to unfair outcomes for both consumers and competitors. Therefore, it is essential for Ofcom to ensure that asset valuations under CCA are periodically reviewed and adjusted, particularly during periods of technological transition or when significant legacy asset retirement occurs. Such measures help maintain cost reflectivity and prevent undue advantage being conferred by outdated asset valuations.

6. Remedies sought

To ensure CJF costs are treated fairly and in line with regulatory principles, we consider it essential to maintain the current allocation approach until the CJF transition is complete and the asset has been fully reclassified. Openreach should be required to provide full transparency on CJF cost stocks and flows, with any residual "care and maintenance" costs clearly identified to prevent cross subsidy between services. Looking forward, any future price regulation should adopt forward-looking framework of economic depreciation, so that cost recovery aligns with actual usage and reflects the efficient end state network topology rather than legacy backward-looking allocations.

7. Cost Allocation Concerns: Core Junction Fibre (CJF)

CJF: For decades, charges have been set using a 1.2 radial distance uplift, not actual routed length. Purchasers have no control over Openreach's route design and cannot ensure the most efficient (rather than most convenient) engineering choice. Changing methodology for installed services would raise costs where switching is effectively prohibitive. While Openreach can now measure actual routed distances, any new basis should apply only to new products (e.g., EAD2) at launch, when customers naturally reassess providers alongside new installation charges. Critically, route length charging for legacy services rewards inefficiency: where choices exist, Openreach could use a longer pre-existing path, avoid new capex on the shorter build, and pass the extra distance costs to customers. That embeds inefficiency, undermines optimisation incentives, and exposes purchasers to costs outside their control.

8. Questions for Ofcom

a. On what regulatory basis can Openreach unilaterally replace the long established "radial distance × 1.2 uplift" charging methodology with actual routed fibre distance for CJF, given this approach has been stable for decades and relied upon by purchasers?
b. Does Ofcom consider this shift to constitute a material policy change, particularly given it would result in route specific, deaveraged charges and therefore require formal consultation, impact assessment, and a clear statement of regulatory intent?
c. How will Ofcom ensure that Openreach cannot retrospectively increase charges for already installed services where purchasers had no control over, or visibility of, the routing choices Openreach made at the time of deployment, and where switching is effectively prohibitive?
d. What safeguards does Ofcom intend to put in place to prevent Openreach from introducing de-averaged leased line pricing "by the back door," outside the regulated Flex zones, and without the policy rationale that underpins Ofcom's own A2/A3 de-averaging decisions?

9. Our position

Changing the costing basis must be a clear and deliberate Ofcom policy decision, developed through consultation. It cannot be within Openreach's discretion to unilaterally alter the underlying charging methodology, particularly where that methodology has been stable and relied upon by purchasers for decades. Any shift from the established radial distance plus uplift approach to actual routed fibre distance represents a material policy change with significant commercial and competition impacts, most notably, it would directly lead to deaveraged leased line pricing, a shift that carries substantial regulatory implications and requires explicit policy consideration by Ofcom.

Openreach cannot be empowered to redesign the rules in a manner that retrospectively increases charges for services already deployed, especially when customers have no visibility or influence over the route choices Openreach makes during installation. Purchasers are effectively captive once service is in situ, and the costs and disruption associated with switching to an alternative provider are prohibitive. Permitting Openreach to impose new route-based charges after the fact would create asymmetry of risk, distort incentives, and undermine regulatory predictability, all contrary to Ofcom's duties to promote competition, ensure non-discrimination, and maintain fair, transparent, and stable pricing frameworks.

Crucially, moving to actual fibre routing distance would remove the long-standing averaging that underpins leased line pricing. This would produce sharp and unpredictable cost variations based on engineering decisions entirely outside the purchaser's control. Such de-averaging is a major policy question for Ofcom, with ramifications for regional competition, investment incentives, and the affordability of business connectivity, and therefore cannot be introduced indirectly through unilateral Openreach cost allocation changes. If Ofcom considers that actual routed distances should become the future basis of charging, the appropriate route is to apply such a methodology only to *new* products, such as EAD2, at the point they enter the market. As customers migrating to EAD2 will necessarily incur new installation charges, that transition provides the natural, competitive moment for users to reassess providers on a level and transparent footing, without retrospective price shocks.

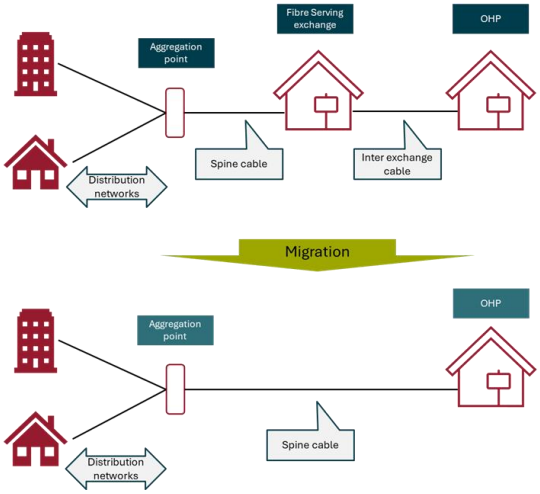
10. Remedies sought

Any change of this nature must therefore be subject to full regulatory scrutiny by Ofcom, including impact assessment, market wide consultation, and a clear evidence base demonstrating that the new approach is justified, proportionate, and aligned with the interests of end users. The TAR November consultation did not offer this opportunity or direction to readers. Without such proper oversight, there is a real risk that unilateral adjustment of the cost base by Openreach would result in unwarranted price increases for customers not in a position to switch supplier having incurred the connection and excess construction charges from Openreach.

11. Cost Allocation Concerns: Access Spine Cable

Access spine: moving from a capacity based allocator to a fibre utilisation metric would misattribute shared transport costs. Fibre counts reflect topology and aggregation choices, whereas shared upgrades are triggered by bandwidth thresholds (wavelength adds, optics upgrades, aggregation uplifts). Capacity, not fibre count, is the cost driver for shared spine reinforcement

The two sections of the diagram below show the role of access spine cable in the legacy/current network and the future network.



Source: Frontier Economics

12. Questions for Ofcom

a) On what basis does fibre utilisation better reflect cost causation than capacity (bandwidth) in a shared transport layer engineered to upgrade on traffic thresholds?
b) How will Ofcom ensure low early FTTP utilisation does not shift disproportionate costs onto Ethernet services operating on mature, higher utilisation legacy spines?
c) How will cost allocation adjust for the architectural fact that broadband aggregates early while leased lines aggregate at the CP handover, and thus cannot benefit from identical wavelength efficiencies?
d) How will the framework separate provisioning/ECC costs (service specific) from shared spine capex (capacity driven), to avoid double recovery from leased lines?

13. Our position

Capacity, not fibre count, is the true driver of access spine costs. Shared spine upgrades such as wavelength adds, optics uplifts, aggregation uplinks are triggered by bandwidth growth, driven overwhelmingly by FTTP and broadband rather than by the number of fibre strands that are lit. Fibre count reflects network topology, early aggregation for broadband and late aggregation for leased lines, rather than economic cost causation, meaning that fibre utilisation metrics would structurally disadvantage leased lines simply because of their design characteristics, not because they create higher shared costs. Broadband is the dominant volume and capacity driver, and low early FTTP utilisation is a temporary deployment artefact, not a justification for shifting costs onto Ethernet.

We also note claims that XGS-PON can "emulate", and consequently substitute from, leased lines. We see XGSPON as Business FTTP. Openreach has proceed to launch a product into the market[1]. XGS-PON is a shared broadband technology, its growth will also drive Access Spine capacity upgrades far more rapidly than any residual leased line demand.

Allocation should therefore reflect steady state capacity demand rather than transitional utilisation snapshots.

14. Remedies sought

To ensure access spine costs are allocated in a way that reflects true cost causation, we consider it essential to retain a capacity based allocator for shared access spine costs. Where transitional effects arise, such as low early FTTP utilisation, neutral glidepaths or economic depreciation should be applied to avoid misallocating costs onto leased lines during the deployment phase.

ENDS 28th January 2026

[1] Pricing manager