

Ofcom: Promoting Competition & Investment in Fibre Networks – Telecoms Access Review 2026-31 (17 March 2026)

Rohit Goel

OK. Good morning all and welcome to the call this morning to discuss publication of Ofcom's statement on the Telecoms Access Review 2026-31.

My name is Rohit Goel. I'm Analyst and Investor Relations Lead at Ofcom. With me this morning are Melanie Dawes, Ofcom Chief Executive, Natalie Black, Group Director, Infrastructure and Connectivity and Ben Harries, Director, Infrastructure and Connectivity.

I would like to advise everyone that this call is being recorded for replay purposes, which will be available later on together with the transcript on the Ofcom website.

Through the presentation portion of this call, we will be referring to the accompanying slides, which you can download if you've not already done so from the analyst presentations portion of the Ofcom website.

There will be an opportunity to ask questions once we've completed the presentation. If you would like to ask a question, please use the Q&A tab at the top left of your screen to let us know your name, institution and your question.

And with that, I'd like to hand over to Melanie.

Melanie Dawes

Thank you very much, Rohit, and thank you to everyone for joining us this morning. I look forward to the conversation.

It was almost exactly a year ago, as you will know, when we laid out our consultation proposals for the Telecoms Access Review and today we're finalising that work and broadly confirming the decisions that we proposed a year ago with some adjustments in light of stakeholder views and where we found evidence to do so.

But it's also five years since I remember launching the first five years of our investment and regulatory framework. And I just want to start, and these slides will help us see some of the numbers, by highlighting the success that we've seen over those first five years, because we're ultimately fuelling economic growth here with the rapid rollout of fibre networks.

And what that means, of course, is that productivity is directly enabled because of the central importance of technologies like artificial intelligence.

Now as you know, our strategy goes back to 2016, when we announced a strategic shift towards large scale investment in fibre, and then in 2021 we set out the details and it went live with a 10-year framework.

And so what have we seen? Well, we've turned the tables on the UK's position in the international league tables. We're now high up that list rather than lagging behind, which is where we were before.

Our foundational remedy, which requires Openreach to allow all other network operators access to its ducts and poles, where they want that access, so that they can deploy and operate their own networks at lower cost.

That, together with the clarity, and certainty, and stability of the broader regulatory framework, has given BT and the altnets the confidence to step forward with investment that has totalled 3-to-6 billion pounds per annum.

And we've seen full-fibre networks triple to 78%. That's the latest data we've published, but it'll be slightly higher than that already. The build has been balanced across urban and rural areas and we're expecting, if you look at the telecoms industry's own data, that full-fibre could reach over 90% of homes within the next five years.

And of course it's a much more competitive market than it was. 75% of premises, which is a significant improvement, up from 50, now have access to another alternative to Openreach and 29%, again a big improvement, have access to more than one other network.

So that that competition is a really central part of what we think is very encouraging about the way the market has developed. And of course, One Touch Switch has allowed consumers directly to be able to avail themselves of that competition and we've had more than two million uses of One Touch Switch since it launched about 18 months ago.

And take-up is rising too. It's at 42% of premises which now take full-fibre where they've got it, which is you know and it's rising rapidly. So customers are migrating away from incumbents, they're migrating away from the older technologies.

So, we have a lot of progress that we've achieved so far. But moving on, there's clearly a lot more to do.

We're five years in and this is a 10-year strategy. We've always said that while the pace and scale of rollout is above expectations, I think there are still gaps in coverage across the UK.

More investment is still needed, and some of that of course will need to be from the public sector to fill gaps where the build won't be commercial.

We also expect other technologies than fibre to be needed in some parts of the country, whether that's wireless or potentially increasingly satellite as well.

We've also seen the competitive landscape change significantly and while competition is still developing, we don't believe that it has yet developed to that point where we could remove all wholesale regulation in the broadband market. We're not yet at that point where we can say it is sustainable. It will take more time for the newer providers to build their customer base, drive take-up and achieve scale to overcome the incumbency advantages of Openreach so that we get a strong competitive constraint for the long-term.

So, this isn't the time for big sweeping changes from Ofcom. It's about retaining the pro-investment pro-competition strategy that we have held to for a decade now, which has got us, we believe into a good place.

Certainty, stability and consistency in regulation is what we've always promised and it is what we will continue to deliver.

So, I'll pass over now to Natalie, who will take you through the proposals and then Ben will explain a little bit about some of the broader impacts. And then of course, we'll open up for questions and I look forward to that. Thank you.

Natalie Black

Thanks very much, Melanie, and good morning everyone.

So, the next two slides show how our decisions today compare with our consultation proposals and with the WFTMR 2021.

Throughout this process, we have engaged with a wide range of stakeholders, including industry players and investors, and we've made some adjustments in light of stakeholder views and where we have found evidence to do so.

As you can see, we are for the large part confirming proposals on which we consulted on a year ago, which themselves were all aligned with the WFTMR.

This stability in our regulatory path helps deliver the clarity and certainty for multi-year investments.

So, overall we still find Openreach to have significant market power. Competition is developing, but it's not clearly sustainable yet.

I will highlight three decisions now and as Melanie says, we'll then get into some more detail and very much welcome questions in the Q&A.

So firstly, we are providing more clarity on our approach to offers by Openreach in this review period. Sustainable network competition necessarily requires not only that networks are built, but that altnets are able to attract customers to these networks. Given take-up is critical, we maintain regulation of Openreach's offers to preserve the opportunity for reasonably efficient altnets to compete and increase take-up during this review period.

We expect the competition to develop over the next five years and our regulation is flexible enough to adapt to this. To provide clarity to the market, we're providing updated guidance on how we will take market developments into account when applying our regulation relating to Openreach offers.

And secondly, on copper retirement. While we are keeping the three staged approach to copper deregulation, as in the WFTMR, today we are publishing a consultation on the specific conditions Openreach needs to reach for the charge control to copper services to be removed, allowing Openreach pricing flexibility to encourage migration. Under our proposals, from the 1st of April 2029, subject to the correct notifications, the charge control on copper services could be removed in any exchange areas where 90% of premises have access to fibre.

This means more exchanges would be subject to such deregulation earlier than would otherwise have been the case. We expect Openreach could increase copper-based prices in many exchange areas during this review period.

And thirdly, the business connectivity markets have also been an important and core focus of this review, what we call the leased lines access market.

As you can see, there are some changes, for example regarding the scope of Area 3 in leased lines. And as a result of a follow-up consultation last November, we have concluded that the overall size of Area 3 in the leased lines market is smaller, reflecting greater potential for competitive build given the PIA remedy versus our original consultation proposal last March.

There have also been some changes across inter-exchange services and quality of service when compared with the WFTMR, but the consultation proposals are largely confirmed in our decisions today.

I'll now hand over to Ben.

Ben Harries

Thanks, Natalie. Good morning everybody.

So, Natalie's highlighted some of the key measures in the decision today. On the next few slides, I want to highlight some of the key themes. And first, what does all this mean for investment?

From our standpoint, we believe that our decisions today support continued investment across the UK during this review period, from both Openreach and the altnets.

First, we're retaining access to Openreach's network of ducts and poles on regulated terms. And as part of this review, we've adjusted some of the fair shares that we use to set Openreach's PIA prices,

meaning some prices will come down somewhat over the review period for those relying on PIA.

Second, our approach towards capping Openreach's wholesale prices. So, this is the protection we put in place for consumers whilst competition is developing. We're retaining an inflation-linked charge control on just one basic superfast product and we're confirming today our proposal to move that to the 80/20 megabit product away from the 40 megabit product in 2021.

All other bandwidths will be subject to pricing flexibility, so this leaves more margin in the system, not just for Openreach, but for all network builders.

Third, as Natalie mentioned, we're maintaining restrictions on deals that could stifle investment and the development of sustainable network competition.

This means that Openreach can't use its position to unfairly deprive altnets of demand and undermine the development of network competition in the long-term.

Fourth, we're moving forward with our support for the retirement of Openreach's copper-based network, so that it doesn't have to incur unnecessary costs in running two parallel networks. And although we're not defining the conditions today for full deregulation of copper-based services, we are setting out our current expectation that full deregulation of copper-based services could start happening in 2031, and we will commence work ahead of this date.

And finally, but very importantly, the opportunity for BT to earn a return above its cost of capital is secured by our continued commitment to the fair debt.

On the whole, we think this is a balanced package for Openreach and for altnets, and whilst we expect the pace of build to slow, as things stand, and based on the plans of UK network builders. With the right support, we think full-fibre could reach well over 90% of premises in the next few years, compared to 78% today.

Moving on to the next slide. I wanted to just set out some of our views on the market and competition.

So, Melanie has already highlighted the significant increase in choice that we've seen resulting from all the investment, and how the benefits of that competition are already being felt through lower prices, higher quality service, innovation in terms of the adoption of newer technologies.

Overall, we find 86% of UK premises, already have, or have the potential for, material and sustainable competition. We call that Area 2. But, as Natalie said, competition is not yet clearly sustainable and Openreach still has, SMP, significant market power, in this area.

We want to see network competition continue to develop where this is sustainable and where it delivers benefits to consumers in the long-term. And as we've said, take-up is critical to that. It underpins the ability of altnets to exert a strong competitive constraint in the long-term.

We're seeing altnets price attractively to attract ISPs and customers, and altnets have made progress in winning customers and increasing take-up.

But we remain of the view that absent regulation, Openreach has the ability and incentive to undermine the development of network competition in the long-term.

And that's why we're keeping the rules on Openreach's wholesale pricing offers. In particular, we've retained the restriction on geographic pricing. So, Openreach is required to seek consent for discriminatory geographic discounts in Area 2. Openreach has to give 120 days notice of the introduction of conditional terms that could deter ISPs from using rival networks. That gives us the time to assess them before they take effect.

And we've also set out the factors, and issues, that we consider when considering any concerns that Openreach's prices are too low.

We're not seeking to support increased altnet take-up as an end in itself, or at any cost, nor are we guaranteeing the success of individual altnet business models. Openreach is allowed to compete. This is a pro-competition framework.

But our regulation seeks to maintain a reasonable opportunity for reasonably efficient altnets to compete for take-up and achieve sustainability.

We expect the market to change over this review period, and with our regulation in place we expect competition to strengthen. Our regulation needs to be flexible and adaptable as competition develops and evolves.

Our remedies allow us to take developments into account when applying these rules over the review period. And today, as part of our decisions, we're publishing more detailed guidance that provides more clarity on how we will apply our regulation to take into account market conditions in determining whether geographic discounts, or other commercial terms, should be allowed.

The guidance sets out examples of the types of schemes that might be problematic, and it sets out the indicators that we look at to understand the strength of competition in the market, the extent to which it's developed so that we can determine whether a scheme is capable of harming competition in the long-term.

So, we might look at take-up of altnets, we'd look at market shares, we might look at altnet business plans, look at routes to market for the altnets, we'd look at their pricing and their financial positions.

But in each case, we'll look at the evidence that we think is necessary to look at in order to reach a view on that particular offer.

There may be future scenarios in which we can relax our position on Openreach offers. Our decisions will continue to be evidence based and we'll seek to reach a view on any offer promptly and efficiently.

I'll hand back to Natalie.

Natalie Black

Thanks Ben. I'm going to now say a few things about consolidation.

Beyond the take-up challenge, build by altnets has been more fragmented than we expected in 2021. With over 100 operators building fibre it is unlikely that all of them will prove viable on a standalone basis. A relatively small number of altnets account for the majority of the 15.4 million unique premises passed by altnets to date.

Consolidation will be an important feature of the market over the coming years. We've already seen the pace of this pick up since the start of 2025. It may be the means by which some altnets gain the scale they need to become material and sustainable competitors to BT.

However, not all consolidation is equal. Competition concerns can arise depending on the specific details, including the market position and geographic location of the relevant parties. It isn't our role to dictate the end state, but we do want consolidation to be as orderly as possible.

Our interest is always going to be on what it means for competition and consumers in the long-term.

The CMA rather than Ofcom is the decision-making body under the UK merger control regime. If the CMA calls in a merger, it will consider the extent to which the transaction will lead to a reduction in competition. We will assist the CMA with its understanding of the market and assessment of the anti-competitive effects and any claimed efficiencies.

And now let me say a few words about regulation post 2031 and the fair bet.

Before we conclude, we wanted to take the opportunity to outline how regulation could look beyond this review period and also on how we think about the fair bet.

We recognise that the investments being made by all network operators have long payback periods and competition takes time to develop and become sustainable.

By 2031, our strategy will have allowed a window of 10 years for network rollout to occur and competition to develop. So, the potential end state should be visible.

Our future decisions will depend on the circumstances that exist when we carry out our next review, with a focus on markets and consumer outcomes to help to determine the appropriate direction to take.

For now, we are reiterating the position we outlined in 2021 with respect to how we see regulation developing post 2031 and how we would assess the fair bet.

Where effective competition emerges in 2031, there will be no need for Ofcom to regulate. This is what we would like to see happen.

If we consider that sustainable competition and investment are still in the process of emerging beyond 2031, we would expect to continue to regulate in a way that continues to support this.

If not, then we would look at market outcomes, as light touch regulation may be the most appropriate approach.

If we did need to revert to cost-based prices in the future, then we will honour the fair bet. This means that BT would have the opportunity to earn a return above its cost of capital over the whole fibre investment cycle.

One final point, subject to continuing findings of SMP come 2031, we would expect to continue to require PIA to be available on regulated terms.

So, in conclusion, the UK fibre investment story has been a success on investment, coverage and new competition. But there is more to be done to finish the job in terms of fibre rollout and to help establish sustainable competition that benefits consumers in the long-term.

We are sticking to our pro-investment, pro-competition framework as the right strategy to get even greater coverage and higher levels of take-up for altnets and Openreach alike.

We've made some updates while maintaining certainty, consistency and stability in regulation.

While there has been a material improvement in competitive conditions since 2021, that competition is not yet sufficiently well established.

Consolidation will be an important feature of how the market develops over the coming years and Ofcom is focused on what it means for competition and consumer outcomes.

Network competition is likely to evolve and develop over the review period. Take-up is critical and will be an area of focus for us.

Openreach needs to be able to compete, provided that it does so fairly. Regulation needs to be flexible enough to adapt as market conditions evolve.

Our future approach to regulation beyond 2031 will depend on market outcomes. Light touch regulation may be appropriate. Where effective competition emerges, there will be no need for Ofcom to regulate.

Before we end, I just want to say thank you for all the hard work that has gone into this process and I know Melanie would like to join in that as well.

Melanie Dawes

Absolutely. Rohit, over to you.

Rohit Goel

Great. Thank you everyone. We'll now move on to the Q&A section of the call and I'd ask you to please keep your questions to today's announcements.

If you would like to ask a question, please do please use the Q&A tab at the top left of your screen to let us know your name, institution and the question you'd like to ask.

I think in some cases there's some issues with the tech. Maybe you can't access the Q&A tab, so I would encourage you to use the raise hand function instead or drop me an e-mail. We can then look to try and unmute you when it's time to ask your question.

When you are prompted to do so, please unmute the microphone your end and unlock the camera should you wish to do so. You'll then be free to ask your question.

There will be a brief pause while we wait for questions to be registered. And like I say, if we don't get round to answering your question, then please do get in touch with me after the call at analyst.relations@ofcom.org.uk.

So with that, we'll take our first question from Nick Lyall at Berenberg. Nick, do you want to unmute yourself your end and open your camera if you'd like to do so?

Nick Lyall

Hi, I think you can you hear me now that's the that's me on meeting. Perfect. OK. Hello, everybody. Thanks very much for the presentation this morning.

Just a couple of things. I think Melanie, you mentioned scale with the with the reference of long-term regulation. Can you just define to us what scale actually means? Is that percentage alt share or number of alts particularly in light of the Netomnia acquisition.

And then secondly, just a very quick one, any details on what the copper consultation might be looking into? You've mentioned April

2029, 2031 deregulation, just a couple more details just to help us on what the scope of that might be. Thanks very much.

Melanie Dawes

Thank you. Thank you. Sorry, it's a slightly fuzzy line, but you were asking what scale means referencing my comments at the beginning. I'm going to ask Ben to ask both of those, answer those questions.

Ben Harries

Yeah, no problem.

So, in terms of scale, I think when we look at the altnet market, it's clear that it's very fragmented and it's clear that some of those altnets have not achieved the scale in order to attract large ISP customers and remain vulnerable to behaviour by BT.

What we've not done in our decision today and what we don't have a sort of predefined view on is what is there a threshold for scale at which an altnet becomes sustainable.

That's something that we would. we would consider in the circumstances, for example, when we're thinking about sort of whether to allow certain offers or not.

That said, we can see that consolidation is clearly going to be needed in order to achieve scale it and and to Natalie's comments, I think there's different ways in which that scale could be achieved.

We're not predetermining how that, how that scale should be achieved.

Just the other piece to that is you mentioned take-up in there. So, as well as scale in terms of overall footprint, there's economies of scale in terms of having customers on the network. We absolutely recognise that one of the reasons that take-up is so important to altnet's sustainability is their ability to unlock economies of scale and we find clear evidence of economies of scale in these businesses. And again we haven't set a threshold for what level of take-up is required in order to unlock a level of efficiency.

We have our own modelling of what a reasonably efficient operator looks like with assumptions in there on take-up. But the sort of key point that I'd like to emphasise is the way we look at this is, there's no one single factor that's going to determine the sustainability of competition here.

We're going to have to look at a number of factors and it's our guidance that sets out those factors.

Just on your second question in relation to copper retirement. So, what we're proposing today relates to, in the consultation relates to the second threshold of copper retirement.

So, the first stage of copper retirement is when can Openreach stop selling copper-based broadband services to new customers, and that's when they've achieved 75% coverage.

The rules as they stand under the 2021 framework, and in in the condition, the rules that we put in place today say Openreach needs to achieve 100% coverage in the exchange area before the copper-based charge control moves to full-fibre so it can start to increase copper-based prices to encourage migration.

What we're proposing in our consultation is that we allow up to 10% of premises to be excluded from that calculation. In practice, Openreach needs to achieve 90% coverage in the exchange area, but we're also saying that it should only be able to do that from the 1st of April to 2029 and the reason for that is primarily about ensuring that our framework supports Openreach, gives it support for copper retirement, but also provides adequate protection to consumers. And we're mindful of the period of time that consumers might face higher prices before the third stage of copper retirement kicks in.

Rohit Goel

Great. Thank you very much. We'll next move on to a question from Polo Tang at UBS. Polo, your line is open. If you could unmute your end.

Polo Tang

Yes, I'm unmuted. So, it's Polo Tang at UBS. Apologies, I couldn't use the Q&A function because of IT issues my side, but I have two questions. The first one is you made reference to commercial restrictions on Openreach, but can you clarify what Openreach can or cannot do?

So, for example, are they allowed to do volume deals? Can they cut wholesale pricing or are you mainly just focused on the entry level product? Also have the restrictions on Openreach been widened, not only to include line rental but total costs, such as installation costs.

That's my first question. And second question is, can you clarify what has happened to PIA costs on average? In the presentation you mentioned that they've been updated, but I think they've actually come down slightly. So can you maybe give a sense in terms of quantum, in terms of what's happened with the PIA costs? Thank you.

Ben Harries

Yeah, no problem. So, in terms of the commercial restrictions on Openreach, so as I mentioned, there are three limbs to this.

One relates to geographic pricing, the other relates, then there's conditional terms. So, that's volume discounts or prices that are conditional on the range or volume of services purchased. And then there's, then there's the question of the the absolute pricing levels.

On those, what we're saying, there are no sort of outright prohibitions on anything Openreach can do in our framework. And the reason for that is that we recognise that that this is a pro-competition framework.

We want Openreach to be able to compete and some of these offers can have benefits.

It's also worth emphasising that lower prices by Openreach, we recognise that they will place commercial pressure on altnets, particularly given some of the challenges those altnets face. That alone is not a reason for intervention. Lower prices do not automatically raise competition concerns. What we do in our guidance is set out, sort of, what we're thinking about when considering an offer and whether it raises concerns.

So, in relation to geographic pricing, we've given examples of the types of schemes that might raise concerns. So, for example, geographic pricing that's targeted at where an altnet has plans to build, would that undermine that altnets delivery of that build plan or geographic pricing targeted at an altnet that is that is present in that area and but due to temporary, very temporary barriers, it's not ready yet to compete in that area. For example, there's a wholesale deal that's not yet implemented

In terms of price levels, again we're not setting sort of an absolute price level which Openreach can't price below. What we're, what we're thinking about is does the price level undermine the development of network competition, and in particular does it amount to a margin squeeze on a on an altnet? So does it undermine a reasonably efficient altnets ability to recover their costs.

On volume deals, the question there, again no outright prohibition on volume deals. The question is, does that conditional offer act as a barrier to altnets using ISPs, and if it does act as a barrier. So, for example, is there a penalty element in there or would they face higher Openreach charges if they chose to put some of their volume with an altnet, if that's the case, then we'd look at what the impact would be on network competition and whether there are demonstrable benefits to justify that offer.

So, hopefully that outlines our approach to restrictions. In terms of PIA pricing, you're right, we've updated some of the PIA prices and some of them have come down, or will come down, over the review period. That primarily relates to lead-in charges where we've updated the fair share to reflect a long-term view of the revenue opportunity available to altnets.

We've also reduced the single bore, single bore duct PIA price to account for the fact that there are multiple altnets using the same piece of duct and single altnets might be might be purchasing two sub ducts within a piece of duct and that wasn't reflected in the pricing in 2021.

In terms of what that means for the average PIA price, I don't have a figure for you today. And the reason for that is because it all very much depends on the extent to which an altnet is reliant on PIA as well as the mix, the mix of products that they're purchasing.

Rohit Goel Great. Thank you, Polo, for that question. We'll next move to a question from Robert Grindle at Deutsche Bank. Robert, your line is open.

Robert Grindle Yeah. Can you hear me OK? Ditto on the IT issues. Thanks for the call and also for the good work on the online safety you guys are doing alongside your telco stuff.

Number one question is, was there much of a debate and if there was, what were the key issues around not introducing an Area 1 for regulation? It's something that Openreach was pushing for. And then with regard beyond full year 31. How important is it that you see widespread wholesale competition developing? Is that a key evidence factor for the sustainable competition or is it just more about getting the altnets to a decent penetration rate regardless, wholesale or retail? Thank you.

Melanie Dawes Thanks, Robert, for your comments on online safety. There are many debates when you're producing something like this, but I think probably Ben and Natalie have been at the heart of them and might want to give you whatever take they feel they can. It's a central question, clearly Area 1.

Ben Harries Yeah. Should I cover Area 1? Yeah. And then you know if we want to comment on some of the other debates we can.

So, I mean it's clear this is this was a debated topic, and to be very clear, we recognise that the competitive landscape has changed significantly since 2021, and the market is continuing to develop.

But what we need to do is look at the overall strength of competitors, so not their market shares in individual post code sectors or looking at very narrow areas. And when we do that, what we what we conclude is that actually the right way to think about this market, but for the areas that the the sort of 14% of the country where we don't think there is potential for material and sustainable competition, the rest of the country we think makes sense to think about that together. Competitive conditions are quite similar, especially on a forward look, given all the uncertainty in the market, and that uncertainty goes both ways in terms of increases in competition, but also potential reductions in competition.

And when we look at that large area, we very much reach the view that competition across the area is not yet sustainable. In particular, that competition we think remains vulnerable to strategic behaviour by Openreach.

That said, we recognise that with our remedies, competition is likely to continue developing over the review period and therefore we can become less restrictive on Openreach and give it more flexibility as competition develops, or where competition develops, and that's built into our framework.

I mean just in terms of some of the other debates, I think pretty much everything has been debated across the across the market review. I would say one of the other areas is in relation to business connectivity. We don't talk about it as much on these calls, but sort of, what is the potential scope of network competition in the leased lines market.

And our view there is that it's different to the broadband market, because the barriers to entry in that market are much higher and then the nature of the business, and business model, that you need to compete in that market differs somewhat. And it's because of that, that we draw a different split of the country. So, we find relatively more of the country to be unlikely to have the potential for material and sustainable competition.

That said, we have shifted our position since the consultation in light of stakeholder feedback, and in particular in light of views about the extent to which our PIA remedy can actually underpin further competition in the leased lines market.

Natalie Black

Yeah. So, I mean, I absolutely agree with that. I think I would just add that across the review, there's a theme really around the pace of change.

You know, we don't have a crystal ball, that is difficult to assess. But what we've worked incredibly hard to do is really understand how the market has developed up to this point, and where possible to get a sense of where it will evolve over the next five years.

But because we don't have that crystal ball, injecting the flexibility that we've heard from all stakeholders. So, that comes through I think in the guidance which is published today, but also in the decisions that we've made around copper for example.

Rohit Goel

Fantastic. Thank you Robert for the question. Just as a reminder, if you would like to ask a question then try and use the Q&A tab at the top of the screen or otherwise raise your hand or drop me an e-mail at analyst.relations@ofcom.org.uk. We'll next move to a question from Joshua Mills at Exane. Joshua, your line is open.

Joshua Mills

Hi guys, hope you can hear me. Thank you for the questions. I had had two please. I understand the first one is probably more of a question for the CMA, but given the fragmentation of the UK altnet landscape that you identified, and some of the increasing financial pressure that we're seeing on particularly the smaller players, do you see any conditions under which an Openreach acquisition of some of the small altnets would align with your regulatory objectives? Be great to get some thoughts there.

And then secondly, when we think about all round competition generally, there's been a lot more discussion and some some increasing use cases of satellites and FWA technology. Is that

something you're looking to take into account in future reviews, and particularly in rural areas, or will the focus remain on fixed-line broadband technologies? Thanks very much.

Melanie Dawes

Thanks very much on that. I mean, look, Natalie if you'll take the second of those, I'll just say a few things about the first.

I mean, as you say, it would be a question for the CMA, and there may well be questions for the CMA to look at over this coming period.

So, for example, in relation to the proposed acquisition of Netomnia by VMO2's owners, Liberty Global and Telefonica and Infravia, we think that deal raises important issues that need to be looked at carefully and thoroughly by the CMA. And of course we would support any assessment that they make from the Ofcom side.

So, you know, we don't have a crystal ball as Natalie was just saying, but it may well be that there are competition issues and that's the way that they would be resolved over the coming period.

Natalie, do you want to add anything to that or answer the second question?

Natalie Black

Yeah, maybe I'll move on to the second question around satellite and FWA technology. I mean, that's certainly something that we've looked at during the course of the review and number of you would have spotted the licensing work that we've done on D2D, which is now up and running.

But overall satellite and FWA technology take-up is still relatively low, although the price is starting to come down. But it's a good example of an area that we'll be monitoring closely as we reflect on any offers that come forward from Openreach and that we will need to monitor these particular developments over the next five years.

Rohit Goel

Great. Fantastic. Thank you for the question, Joshua. We'll next move on to a question from James Ratzler at New Street Research. James, your line is open.

James Ratzler

Yes, great. Thank you very much indeed for the call today. So Melanie, Natalie, Ben, you have two questions please.

So, the first one. A phrase that you've used a lot during today's call has been, sustainable competition. So, could you help us to define this a bit more. And maybe to kind of put you on the spot, if we had a situation with Openreach plus one competing network, with let's say 40% market share and a sensible capital structure. Would you define that as sustainable competition?

And then secondly, you talked also about the fair bet, but I was just wondering about how you'd actually honour that in practice in areas where let's say Openreach has lost more market share than people

were expecting, kind of five or so years ago, or is the idea that you would may be looking to honour the fair bet in kind of Area 3 if you had to move to charge control just in those specific areas. Thank you.

Melanie Dawes

Thank you, James. Great questions as always. So how sustainable is sustainable and how fair is fair? Which of my colleagues would like to have a go at that?

Ben Harries

So, I think the question that we're asking ourselves when we think about is competition sustainable, is are we confident as we look at the competition that's entered the market that it will exert a strong constraint in the long-term. That that's the question here. Which is why we talk about some of the vulnerability to strategic behaviour by BT.

What we don't do, is have a predetermined idea of what the end state of the market should look like. We are very much focused on, you know, continuing with our strategy to promote network competition, and investment, given it has been delivering the investment and the network competition that we want to see.

I, I think we are clear that that there needs to be some consolidation in the market. As we've said, the nature of that consolidation differs and we've got different views on on different types of consolidation, but consolidation is clearly going to be a means by which some altnets achieve a more sustainable position.

I guess your question really amounts to, is there an area where there's two, only two players. Is this, is competition sustainable there? Well, you know my my sort of off the cuff answer is well of course it is. But you know we, we've seen that in large parts of the UK for many, many years we've had sustainable competition from 2 altnets.

Sustainable competition to be clear is not the same as effective competition. So, is competition there sustainable, but is it effective such that we can remove the regulation entirely and and that's why we have this concept of sustainable and material competition.

We would always look at the outcomes though. So, Ofcom does not come at these market reviews, and will not come at the 2031 market review, with a predetermined idea of what the market should look like in order to deregulate.

What we care about is what are the outcomes for consumers in this market and to what extent is competition constraining Openreach's behaviour such that regulation isn't needed.

Yeah, I'll move on to fair bet. So, in terms of in practice, how does, how do we, how do we do the fair bet? How do we ensure Openreach gets a fair bet? I think when we think about the fair bet, it's and when we thought about providing, and leaning in, to provide more clarity on the fair bet in 2021, it was primarily a question about Area 2.

And the reason for that is because in Area 3, although we have the same price regulation, it is at its heart a cost-based control across fibre and copper-based services. So, we don't think the same fair bet issues arise. To be clear, we will always honour the fair bet wherever we regulate Openreach.

But the real question is in Area 2, where we've had this period of sort of relaxed regulation, if competition doesn't emerge and market outcomes meant that we needed to impose cost-based charge controls. The question is how would you impose those cost-based charge controls to give BT a fair bet.

And the underlying principle here is, what we would be thinking about in 2031, is would BT have made the decision to invest had it known how we were planning to regulate, and that requires an assessment of the risks, the cost of capital that BT faced at the time it made that investment and it's not about what's happened since, it's about what the circumstances were when it made the decision to make the investment. And what we've said is that at the point at which, if necessary we impose cost-based charge controls, we would allow BT to keep any returns earned up to that point and then from there on we would give it the opportunity to earn its cost of capital. Meaning that, over the lifetime of the investment, it could earn a return in excess of its cost of capital.

I think you're pointing to a scenario there where, what if Openreach has lost a lot of lines in that first part of the review period? To my mind, what that suggests is that actually competition has been successful and the question of the fair bet doesn't arise because we're probably not going to be imposing a cost-based charge control in an area where competition has developed to the point that Openreach has lost a lot of lines.

So, that's the way we think about, the the fair bet question really arises where competition doesn't develop and where Openreach retains its monopoly position.

Natalie Black

Yeah, I would just absolutely agree with everything that Ben's just said. And James, it's a great question. But yes, we wouldn't come in it from the premise of any expectation of how many line losses Openreach have been through. The questions we would be asking ourselves is actually what the outcomes are at that particular moment, and of course, what it means for consumers and competition in the long-term.

Rohit Goel

Great. Fantastic. Thank you, James. We'll next move on to a question from Matthew Howett at Assembly Research. Matthew, your line is open.

Matthew Howett

Great. Thanks for the question. I suppose mine is in relation to, you know, five-year market review periods have generally been seen as pretty good for stability and has encouraged the investment that we've seen. I think given all that we've heard around what the future market

structure might look like as a result of consolidation, do you think that's an appropriate sort of review period and would you be willing to intervene if you didn't sort of see things playing out as you expect in that next five year period?

Melanie Dawes

Well, look, I mean that's a, it's a good question Matthew and I think look when you're trying to do what we're doing which is to create stability over a long period of time, and as I said this is a, this is already a 10-year strategy from Ofcom, and we're talking about the next five years in what will then be a very long-term regulatory framework.

We're trying to balance the need to provide that certainty for investment, including what my colleagues have just been saying about the fair bet, which is central to this, with the need to, you know, accept the reality that we don't have a crystal ball on exactly how the market's going to develop.

That's why today we've added this guidance on how we'll respond, the sorts of things we'd expect to look at in how BT may respond, Openreach may respond in offers it may place into the market to provide a little bit more certainty there, and guidance to all of the relevant players.

But fundamentally, we'll also be thinking about, as I was saying earlier, that the CMA may be the decision maker in some areas. I think overall what we've set out today, and the competition framework more widely, does give us, as a collection of regulators sufficient tools to be able to respond, so that the framework we've set out today isn't something that we in any way expect to revisit before 2031.

So, I think we we feel we've got the tools, we've got the levers, we will need to adapt as the market changes. And and that's why we think that we can continue to make this five-year commitment, that we won't be changing the rules before 2031.

Natalie Black

And, I would just add to that, Matthew, in terms of sort of linking up some of the previous questions. Exactly as Melanie says, the framework that we've put in place provides that long-term vision with stability, but with the opportunity to flex around those areas where we do expect to see some change. So, whether that's the nature of the business model, whether it's scale of build, whether it's take-up, whether it's new deals coming through from ISPs, and those are some of the factors that we'll be taking into account when we look at offers coming forward from Openreach.

Rohit Goel

Great. Thank you, Matthew. We'll next move to a question from Harshil Patel at JP Morgan. Harshil, your line is open. Harshil, your line is open. OK. We'll we'll we'll come back to you and we'll move on to a question from James Barford at Ender's Analysis. James, your line is open. Still showing us on mute, James. I don't know whether that's a problem. James, we'll we'll come back to you in a second.

We'll go forward to a question from Andrew Lee at Goldman Sachs. Andrew, your line is open.

Andrew Lee

Yeah. Hi, good morning. I have three questions I'm going to go for and hopefully you can answer them all.

First off was just your comment that, which is very clear, would BT have made the decision to invest had it known it would be regulated in the long-term. That's how you're approaching this. Obviously BT, in interest of its shareholders, has to think about a return over the cost of capital. You've talked about the backstop of it being able to continue to make returns in line with its cost of capital, but how do you think about, what is a reasonable incentive to invest in terms of return above the cost of capital?

The second question was just asking for a bit of insight from you guys, in terms of UK and the broader European context, when you talk to your European regulator peers. Do you think there's now widespread acknowledgement that there's too little thought was made on incentives to invest, clearly that is an emerging and greater focus with what you've put out today versus you know the the confusing approach of 15, 10-15 years ago. But I guess what investors are trying to work out, is what's the risk that we return to the dark ages of just pure focus on consumer pricing, and not enough ongoing incentive to invest by that approach to returns versus the cost of capital in the future. Do you think that there's a widespread European acknowledgement that you're getting the sense that this is kind of pan European rather than Ofcom stand out.

And then just lastly, you know, I'm sure there's some altnets on the line, but be interested to get your views on the struggles of many altnets at the moment, how you think that's developing. We have a number of altnets that look strong on paper in terms of penetration but are still not making any EBITDA, let alone free cash flow. How do you think about that that development you know, and and and given it's leading to the consolidation that as you said you think is necessary for the market more broadly. Sorry, three questions there, but be great to get your thoughts.

Melanie Dawes

Thanks, Andrew. I think Ben, if you want to say something in a moment about the fair bet on the cost of capital and you want to talk about the altnets, you might want to follow up on on on the back your second question about the the broader context.

I'll also give you a bit of a take on that. Look, we've got a we've had a massive cost of living crisis over the last few years and it's clearly rearing its head again because of what's been going on in the Gulf over the last few weeks.

So that pressure on consumers has to be in the mind of every single public policy actor at the moment. It's clearly super critical, and that's, but that's the context in which Ofcom is maintaining our approach

today and not moving to any kind of you know more price conscious or differently prioritised market review.

So, I think what you will see from Ofcom, and I know you're asking about European regulators, I'll say something about that in a moment, but what you're seeing from us is actually confidence that our strategy of prioritising investment is what consumers need over the longer-term and actually it's resulting in extremely competitive pricing for consumers at the same time. And obviously when we turn to mobile, again what you've seen from Ofcom over the last few years, we don't regulate mobile in the same way of course, but for obvious reasons, it's a highly competitive market. We don't have a company with significant market power in the same way. But again, you've seen us deal with things like mid-contract price rises in a way that I think balances effectively the needs of short-term affordability with the need for long-term investment.

And you know, again we've looked at that recently. We published a pricing report in February, showing quite how competitive and affordable mobile and broadband pricing is in the UK for consumers.

So, none of this is about being complacent, but we have as our duty as a regulator, the need to further the interest of citizens and consumers where appropriate by promoting competition and with regard to investment and innovation. And that balancing act of all of those things is what we seek to achieve at Ofcom.

Now, do you see that from other European regulators? Um, I mean, look, I think um. I think it's certainly true that the wider, that wider sense of the market that's changing where you know you can't price for data in the same way, you can price for different speeds, but certainly on the mobile side, it's not any longer something where you can get an easy sort of concrete return for investment in quite the same way. You're seeing that you know definitely played out across multiple different markets.

I would say in the EU context, and Natalie may want to add to this, there's obviously a very big debate there about consolidation and a more pan-European approach and whether that's the right way for them to go. So, it's a slightly different set of arguments. But questions around net neutrality and fair share are clearly, you know, part of the policy debate there.

Again, Ofcom has already moved on net neutrality. It's one of the things we were able to do after Brexit. Other European regulators haven't been able to do that because they've been still subject to EU rules. So, we've been able to give that greater operational flexibility to our network operators in a way that others haven't quite been able to do. But I think it's the same, the same dynamics perhaps playing out in a slightly different way in different markets. But we we have you know very good relationships with our fellow regulators, but I think that European context means a slightly different policy discussion.

Natalie Black

I think, Melanie, you've covered most of that. I would just add, I hope that you've all noticed, particularly with this review, a real focus from us on reaching out to investors and understanding your feedback and perspective on the UK market. We do recognise that the investment environment has changed substantially since 2021. So, you know we have tried to take that into account, and hear that loud and clear.

It is a difficult balance. You know, the cost of living argument is not going away, but our vision is for the long-term and that's why investment is absolutely fundamental to everything that we're trying to do here.

I think what's interesting when you talk to European colleagues, and I just did this at Mobile World Congress, they they look at the UK market and I think they, I like to think they do say it's stand out, I'll use your words. But part of that is because of pace, the pace of which we've managed to drive change in the UK and the frustration in Europe is obviously how slow things can be.

And it's not just in fixed, as Melanie said, it's also in mobile and looking at the merger of Voda 3, but also from where we sit here at Ofcom, trying to facilitate and support a greater focus on quality in mobile and quality performance, which of course is driven by investment.

Shall I touch on some of the struggles of altnets, and others might like to add as well.

Look, it is an incredibly difficult market. As I talked about in my remarks, you know, we now have over 100 different companies. That's not something that I think anyone envisaged five years ago.

Take-up is obviously the key metric, and very challenging for altnets. You're sort of looking at 18% thereabouts. But that's partly because overcoming the incumbent advantage of Openreach is, is still substantial.

It's a challenging market to be in, to operate in, and that's why we have the regulations that we do. We'll continue to monitor them very carefully, but as we've said publicly a number of times, it's not for us to pick winners or get overly involved when there are particular issues.

Our responsibility will remain to consumers and competition in the long-term, where we will take that extremely seriously. We don't have a special administration regime in the UK, as you all know, but we do have the arrangements in place to make sure that we are looking after consumers the best we can working extremely closely, with the Department for Science and Innovation and Technology.

Ben, do you want to say something about cost of capital?

Ben Harries

Yeah, shall I? Yeah, yeah, just very briefly then. So, absolutely that that's that's our guiding principle, would BT have invested had it known the way we were going to regulate.

We've never set a target rate of return and we've never approached this fair bet question by thinking about, well, OK, well, what level of return should BT have.

BT will have its own view of that when it made the investment decision. It's obviously something that we would take into account when we're thinking about this future question.

What we did instead was we provided sort of, we leant in in 2021 and provided more information on the detailed mechanics of how we'd approach that future charge control. And the key question here is really, how do you depreciate the asset base. So, in this period where Openreach isn't subject to cost-based regulation, how much of that asset base gets depreciated and therefore how much is left to go into the cost-based charge control going forwards.

And we were clear that we'd do that using economic depreciation rather than straight line depreciation, leaving more of the asset base to be recovered in the future and we felt that our overarching approach to the fair bet, plus that additional detail, was sufficient to give BT the confidence to invest. And indeed that's what we've seen it do.

Rohit Goel

Thank you, Andrew. I think we'll try and squeeze in one last question. Karen Egan at Enders Analysis. Karen, your line is open.

Karen Egan

Good morning everybody and thank you very much for the call. Just on the issue of PIA, which I know is a big one, especially for altnets. Looking ahead, quite a long way ahead, is there a possibility that PIA costs could rise as copper is withdrawn because Openreach would use a lower share of ducts and poles.

And I just got one other question, which is regard to the outlook for the evolution of competition and consolidation. Would you be concerned with, with mergers where three networks in a particular area would become two? Is that a red line from your perspective?

Ben Harries

So, the PIA question. So, you know we can't fetter our discretion about our future approach to price regulation. What I would say is the way PIA charges are determined effectively we work out the cost per metre duct and then we reach a view on what's a fair share of that cost.

That fair share is not based on the occupancy of those ducts by Openreach versus altnets. It's based on the revenue opportunity, so that there is not a direct linkage between Openreach removing cable, copper cables, from its ducts and PIA prices going up.

Natalie Black

Karen, thank you very much for your question. Obviously understand what you're alluding to, but I think, to point you back to Melanie's

comments earlier in terms of specifically where there are questions that might come to the CMA in this area around competition, and Netomnia is the obvious one at the moment.

We do think that it raises important issues that need to be looked at and we will work very closely with the CMA on that. There might be a range of things that might be looked at. Ultimately it would be up for the CMA to decide that, but you can envisage that they would want to look at things like footprint overlap and the impact of the level of sustainable network competition overall, and we would support CMA in that process.

Melanie Dawes

I think it's harder, you know, you wouldn't say there are red lines, Karen, but there are certainly issues that you'd want to look at and footprint would be one of them.

Rohit Goel

Great. Thank you. And that that ends today's formal presentation. Like I say, if you do have any follow-up questions, then do feel free to get in touch with myself at analyst.relations@ofcom.org.uk. Otherwise, thank you very much for joining us and have a good day.