**Ofcom: Promoting Competition & Investment in Fibre Networks – Telecoms Access Review 2026-31 (20 March 2025)**

Rohit Goel

Good morning, everyone, and welcome to the call this morning to discuss publication of Ofcom's consultation proposals for the Telecoms Access Review 2026-2031. My name is Rohit Goel, Analyst and Investor Relations Lead at Ofcom.

With me this morning are Melanie Dawes, Ofcom Chief Executive, Natalie Black, Group Director Networks and Communications, and Ben Harries Director of Networks and Communications.

I'd 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 section 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 everyone for joining us for this session on the consultation we published today.

Apologies that probably the invites came out quite last minute for you. But you know the nature of the of the consultation and its market sensitivity. But I hope that this morning's session will give you a chance to just get from us any of the detail or overall shape of things that you need. But of course if you want to then follow up with us, do feel free. An interesting document and there's plenty in it.

As Rohit said, I'm joined by my two colleagues. I'm just going to introduce them once again. Natalie Black, who is our new Group Director for Networks & Communications. I think many of you've met Natalie already, but I'm delighted that she's here today to be leading our overall strategy towards telecoms and post over the next few years. Then also here is Ben Harries, who again I think many of you have met who is our new Director for the Access Review and for all things fixed telecoms. Taking over, of course, from Dave Clarkson, who many of you will know and who led this work over many years. Ben has been in our economics group in Ofcom and it's been steeped in all of this work for a long time. So, comes to the access review with all of that background and expertise.

So let me just give you a little bit of an introduction and then I'll pass to Natalie and then Ben, who will take it forward. And then Rohit will organise the Q&A.

So, look, the first thing to say is that here we are at halfway point of our 10-year strategy as a regulator to support investment and competition in full fibre infrastructure. And we are pleased with how it's gone so far. We think we've had a real success story here for the UK over the last five years.

It's absolutely fundamental to economic growth, of course, for people at home, for businesses, and we believe that actually the more that technologies like artificial intelligence emerge, and are applied, the more important this absolute backbone of our digital infrastructure is going to be.

If you think back ten years ago, because it's actually 2016, nine years ago when we first launched our strategy as a regulator and made that shift, we know that then we hadn't had the performance in the UK that we were going to need. Openreach had been slow to invest, and there were limited competitive threats to Openreach’s position, and we were at the bottom of the international league tables with respect to full fibre availability.

So many of you will remember, in 2016 we shifted our approach towards large scale investment in fibre infrastructure, and we have consistently followed that path since then.

March 2021, I remember very well that moment when we launched the 10-year regulatory strategy for real with the WFTMR in March 2021 and we're absolutely clear that we believe that the right way to supercharge, and incentivise, investment was to do so by enabling as many competitors to Openreach to come into the market alongside Openreach as well.

And so, that’s what we've tried to create, and I think, as I say, we're pleased with the success so far through clarity, stability and certainty over that 10-year investment cycle, has been what we've created is a number of companies coming in and rolling out very quickly. In fact, over the last few years, to households and businesses across the country, it's been £3 to £6 billion worth of investment in recent years including access to BT’s ducts and poles, and our and our regulatory measures together have been enabling that.

So where are we today? Well, the first thing to say that that is really important is that we, we did always say this was a 10-year strategy and we still believe that. So, this is the halfway point, but it is absolutely not a change in strategy from Ofcom.

We remain committed to sustaining the overall investments and regulatory incentives that we have created to date, recognising as we have always done that this is a long-term investment for investors and that long-term returns need to be given time to materialise - that's an incredibly important framing for all of this.

We're also clear that while investments so far have been very significant, it isn't over yet. There is still more to do. And in the hardest to reach areas of course government money is under way, supporting that that that build where the commercial case can't be stacked up fully.

And competition has definitely emerged and we will talk to you about that in a moment, but it isn't yet established, and I think we will know that the shape of the market in the future is still to be determined. So there is plenty still to develop and change in this market over the next the next few years.

So this isn't the time for big sweeping changes at all. We are, however, making a few changes, updating if you like our framework where market conditions have changed, but it absolutely remains the same, pro-investment, pro-competition strategy.

I'm going to pass over now to Natalie, and she will take you through the details of what we're setting out today. And then I look forward to engaging with you on any questions.

Natalie Black

Thank you very much, Melanie. Good morning, everyone. Thanks for joining us.

As Melanie has already explained, we believe the strategy set out five years ago is working.

In 2021, we outlined that if the market was to play out the way we expected, with investment and competition, then we would look to largely leave things unchanged. That helps create the necessary clarity and stability in regulation that we understand investors need to back such long-term investment projects.

So, the next two slides demonstrate how we're sticking to that commitment. I'll not go through each one in detail, but as you can see here, there are a lot of green tick marks in the tables where we are proposing to maintain our approach albeit with updates where necessary to reflect the way that the market is developing.

Importantly, we are proposing to maintain our foundational remedy requiring Openreach to allow all network operators access to its ducts and poles to deploy, and operate, their own fibre networks.

We have updated cost-based prices, using new data and an analysis of fair shares, to help ensure continuity of a level playing field. This remains a critical part of the investment case for competitors making it quicker and cheaper to build new networks, potentially halving upfront costs.

For broadband services, we are proposing to increase the scope of Area 2, where there is, or there is the potential for, material and sustainable competition, from 70% to 90%.

As Melanie has already highlighted, we don't find any areas where competition is sufficiently well-established or effective – meaning we are not proposing to define an Area 1 as part of this review.

We are proposing to retain inflation-adjusted prices on a basic superfast anchor product, a continuity of the approach set in 2021 when we first stepped away from cost-based prices.

We are though proposing to shift the anchor from the 40/10 product to 80/20, this is to help ensure regulation remains effective while competition develops and keeps in step with changes in the market driven by the increasing use of data by consumers.

We are proposing to maintain pricing flexibility on other speeds and a premium on fibre to reflect the superior quality and reliability.

Together these measures leave margin for network investors, and allow them to recover a pricing premium for faster services – continuing our clear support for the investment case.

While Openreach has flexibility to compete, we propose to maintain restrictions on deals that could stifle investment and the development of sustainable network competition.

Given the importance of take up to altnets, it's critical that they have the opportunity to compete fairly with Openreach.

Specifically, we propose to continue to restrict Openreach's ability to set geographic discounts and to extend this to cover all charges - not just rental charges as in the previous review.

We also propose to now only apply the restriction in Area 2 as opposed to Areas 2 & 3 at present.

As before, we are also concerned that Openreach could offer commercial terms that deter ISPs from using competing networks, depriving these networks of demand and undermining the development of network competition in the long run. We propose that Openreach should continue to be required to give notice of the introduction of certain commercial terms, and that this notice period be extended from 90 days to 120 days.

We remain supportive of copper retirement through our framework for progressively shifting regulation from copper to fibre. This continues our support, while facilitating the wider objectives of this review, including promoting network competition and protecting consumers.

Under that framework, the 1st and 2nd thresholds will remain unchanged, that is 75% exchange coverage with 12-months notice for all stop sell of copper products and 100% exchange coverage less exceptions for withdrawal of copper charge controls subject to a period of two years post threshold one being met and 12-months notice.

As Openreach build progresses, we are consulting on premises that may be excluded from the 2nd threshold.

Can we move to the next slide, please.

As you can see on the slide, there are other changes across leased lines, inter exchange services and quality of service. And again quite a few green ticks. But, as before some updates, and we can pick up any specific questions in the Q&A.

Move to the next slide, please.

And now for the future, what happens after 2031? We recognise that the investments being made by all network operators have long payback periods and competition takes time to develop and become sustainable. While our future decisions will depend on the circumstances that exist when we carry out our next reviews, we are reiterating how we would expect to approach future decisions. And again, this is all very much aligned with how we mapped things out in 2021.

By 2031, our strategy will have allowed a window of 10 years for network rollout to occur and competition to develop. Our focus will be on market and consumer outcomes, not financial models, to determine the appropriate direction to take.

We expect competition from new providers to continue to develop as they establish themselves as sustainable competitors. This will put us on a path to even greater deregulation in the future, allowing competition to replace regulation permanently.

Where effective competition emerges, 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 will expect to continue to regulate in a way that continues to support this, while ensuring that consumers continue to be protected.

If not, then we would look at market outcomes, like for example, the common pricing constraint as light touch regulation may be the most appropriate approach.

If we do need to revert to cost based prices in the future, then we will honour the fair bet. In setting any controls we would expect to allow BT to keep the upside, i.e. returns in excess of its cost of capital it's earned up to that point as well as ensuring it can earn its cost of capital going forwards. This means that BT would have the opportunity to earn a return above its cost of capital over the whole fibre investment cycle.

Thank you very much and I'll hand back to Melanie at this point.

Melanie Dawes

Thank you very much, Natalie. And we're nearly at the end of our opening remarks. So really just for me to highlight once again some of the key themes of what we're consulting on today.

We think that so far we've seen a success for UK fibre investment over the last few years. I think it's one of the biggest single investments going on across the country in infrastructure.

At the halfway point, our commitment absolutely is to stability and sustaining the incentives that we have set out as the regulator, because there's more to be done to finish the job on fibre roll out, but also for competition to be established and to become sustainable.

So we're sticking to the framework, we're proposing some changes, which Natalie's talked you through, which are basically about updating in-line with market conditions, but not about changing our fundamental strategy. We can go through some of those in a moment. If you would find that helpful.

We think there's still a clear and compelling investment case to finish the job.

For challengers, they have access to ducts and poles, pricing decisions and retained restrictions on Openreach.

Of course, our monitoring of Openreach is a very important commitment from us as the regulator in the years to come as it's always been.

But for BT there's flexibility to compete, a clear path to honour the fair bet, the opportunity for appropriate returns that are above the cost of capital.

We have safeguards in place for consumers including the anchor product pricing, monitoring of Openreach and quality of service provisions.

And so over the next five years, we want to see this play out. And our future approach beyond 2031 will depend on market outcomes. We hope that we'll get to a situation where competition is sufficient for our regulation to be light touch. And indeed, if there was sufficient competition that there would be no need for Ofcom to regulate. But in the meantime, we're continuing with our approach to maximise the chances of that happening into the future.

So Rohit over to you, I think.

**Rohit Goel**

Great. Thank you very much, Melanie. So we'll now move on to the Q&A section of the call. If I could please ask you to keep questions to today's announcements. If you would like to ask a question then can I ask you to use the Q&A tab at the top of your screen, to let us know your name, your institution and the question you'd like to ask. When prompted to do so, please unmute the microphone on your device and unlock the camera should you wish to do so. You'll then be able to ask your question.

There will be a brief pause while we wait for questions to be registered. In the meantime, I should say that we do have quite a number of people on the call, so it may not be possible to answer all questions, so please feel free to get in touch with me afterwards at analyst.relations@ofcom.org.uk.

With that, I think we can move to the first question from Adam Fox-Rumley at HSBC.

Adam, can you now unmute and open the camera if you'd like.

**Adam Fox-Rumley**

Right. Hopefully you can see me and hear me. Thank you all very much for the presentation and also for the heads-up last night.

I wondered firstly, if you could talk a little bit more about the threshold of what would have been, or does define, an Area 1 location please.

Obviously, there is a lot of infrastructure competition in the market, perhaps take-up is a big factor that you want to want to discuss, but it would be very helpful to know a little bit more about how you're thinking there, especially as we go into outer years.

And then the second question I had was on your references to concerns about Openreach pricing in the future. And I was wondering if that is a forward-looking statement of a concern that you remain worried about or whether that's something that you actually have seen, that will be helpful. Thank you.

**Ben Harries**

Shall, I'll take that. So on the question of Area 1. So you're absolutely right. When we look at the market and the evidence that we've gathered, we, you know there has been a lot of entry from new entrants and we're seeing positive signs in terms of the emergence of competition. So right now, 7 in 10 homes have access to at least one alternative to Openreach and 22% of the country has access to two or more alternatives.

The question though in terms of Area 1 is whether that competition is sufficiently well established. And for us, when we look at when we look at the evidence, it's not.

So those new entrants face considerable challenges in overcoming Openreach’s incumbency advantages.

Take up is a key metric here, and we recognise that very clearly in the document in our proposals, and we know that many of these altnets need to achieve scale in order to become sustainable competitors.

I think one of the things that might help in terms of how we're thinking about this is, would this competition be sustainable absent regulation, and from our point of view, there's a risk that if we were to remove regulation prematurely, Openreach will be able to stifle the development of that network competition and deprive it of the demand it needs, and therefore undermine the development of competition in the long run.

I think we set out in the document exactly how we've assessed, assessed whether we're at the point where we've got sufficiently well-established competition.

We've identified a small number of areas within the UK where there are two existing competing networks to Openreach. But when we look at those areas and we, we see that the take up is higher, our view is when you step back and think about those competitors in the round and the fact that there are pockets where they're doing better does not point to them being sort of sustainable competitors. We want to see them make more progress in terms of in terms of their how established they are in the market. So that that's where we're on the Area 1 question.

And on the concerns around Openreach pricing. It is a forward-looking statement, the whole market review is a forward-looking assessment of concerns. And our position here is that given Openreach's position in the market, and its market power, there is a risk that it could use pricing or pricing structures to undermine the development of network competition.

We recognise that over the course of this review, with the right support, we expect new competition to increasingly become established, but our view is that absent the protections that we're putting in place, that we're proposing to put in place today, it would not, it would not reach that point. We need those protections for the duration of this review period.

The final thing to say on that though, is that whereas for the geographic pricing concerns, we have an upfront sort of by default prohibition on geographically targeted pricing. Albeit with a consent process in there. Because we recognise that there might be circumstances where geographic pricing does not raise concerns

On the other side of our concerns around pricing, which is the concerns around conditional pricing, there we don't have an upfront prohibition.

What we've got there is a mechanism for us to review those offers, assess whether they raise concerns and intervene if appropriate. And that very much recognises that offers could be beneficial without raising concerns in terms of the impact on competition. And it also recognises that the market is going to develop over the course of the five-year review period, and it would not be proportionate to put in place an upfront prohibition for the period of the review period.

**Rohit Goel:** So we will now move to a question from I think it’s David Wright at Bank of America Merrill Lynch

**David Wright:** Alright, here we go. There's an awful lot to click here, so I'm hoping it's all it's all worked. Thank you guys and again echoing Adam. Thanks for the heads-up last night.

So I guess you know one of the one of the main potential network providers is VMO2. They've talked about their ambition to build or even buy their way to sort of fibre coverage, and they've established or are in the process of establishing a netco to facilitate that.

Are you comfortable with VMO2 acquiring some of these altnets, or would you prefer, so to speak, some of the altnets to gain scale by moving more together to present an alternative to, let's call them the two big sort of retail players?

Just it's just quite an interesting sort of evolution we might expect over the next 12 months. And how does Ofcom really think about that? Are you comfortable for VMO2, you know to, to, to start acquiring quite a lot of these altnets? I appreciate there's a hypothetical element to this, but just any indications you could give would be appreciated. Thanks.

**Natalie Black:** I mean, David, it's an interesting question and it's certainly one that we're watching.

You know, ultimately our eye is always going to be on competition and good outcomes for consumers. It's great to see ambition in the market from VMO2, I think we welcome that. But ultimately any decisions will, the CMA will play a massive role here, and we would want to be the advisor to them as we have done in other cases like this.

So we'll sort of watch and see and monitor closely, but as I say, it's good to see ambition in the market. That's what we want. We want thriving competition.

**Rohit Goel:** OK. All right. Thank you, David. We'll move forward to a question from Steve Malcolm at Redburn Atlantic. Your line is now unmuted. Do you want to unmute your end and open your camera please?

**Steve Malcolm:** Yeah. I just wanted to come back to what David's question. And actually I think Adam's question as well, maybe just ask them in slightly different ways just in terms of market structure, is that can you hear me OK?

In terms of market structure, is that something that you spend any time thinking about? Because I I completely accept that. You know, you're the sort of proposals you put in place have led to success in terms of building fibre. But I suspect you didn't envisage quite as many companies building fibre. You know, when you put these proposals in place 6-7 or eight years ago.

So does it cause you any concern that there is such a large number and you know it's not a great secret, a lot of them are, you know, quite a quite a bad financial position right now.

So does that structure give you any cause for concern and, you know, coming back to M&A, when you look forward five or six years, you know, is it sustainable to have, you know, 100 different altnets and and small operators and lots and lots of debt?

And then secondly, just on the sort of pricing point and Openreach, I mean just to clarify, do you have any specific issues around the Equinox structure, is that something you're broadly comfortable with. And you know, when I read it, it looks like the main point is that you're extending the consultation period from 90 to 120 days, which seems fair to give everyone a bit more warning. Is that the right way to read it that you're broadly comfortable with what Openreach has been doing, but you want a longer period to consult? Thanks. I'll leave it there.

Melanie Dawes

Thanks very much. Shall I? Shall I just take those two? Because my colleagues have already commented. So let me just give you a bit of an extra flavour from me.

I mean on market structures, above all really we just don't believe this is for the regulator to determine. I mean, it's terribly tempting for us to think, oh, you know, we'd like it to look like this rather than like that. But actually it is for those with skin in the game, in the market to now be thinking about for them over the next few years. We're expecting to see some consolidation. I'm sure we're all expecting to see that.

Many of the businesses in the market have been set up precisely with that end game as their plan. And so how that plays out, you know, look, we're going to be, we're going to be watching and it's, I'm sure there'll be some moments when for some companies, it may look quite difficult. Our eye will be, as Natalie said, on whether there are any implications for consumers. So consumers that are left without a network will be something that we would want to make sure we had a back up plan for or that the market had a back up plan.

But given that what you're talking about, there is a network which has customers on it and therefore has some value, we would hope that for the most part that is going to be something that is an asset in the business that is sustained and maintained. You know, even if there's a difficulty for the company that owns it at the moment, so.

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| | You know, we'll, we'll be with you watching this, but not trying to shape it. And if there are competitors might be here and there, then that will largely be for the CMA. |
| Steve Malcolm | I know it's a difficult hypothetical question, but in the event that an operator is you know is in financial distress and has run out of money and can't operate, you don't have any sort of philosophical objective to Openreach or VMO2 to you know preserving that asset, preserving connectivity and keeping it going. I mean clearly every case will be different. I understand that. But I mean if you're in that extreme situation is there, is there an argument, basically to keep the network running and let let the big guys basically buy the small distress guys. |
| Melanie Dawes | Well, look, I mean, as you say, every case is different. The purchase purchase some altnets, so that's that's something that some small localised services. But we're we're just going to have to see but consolidation is going to happen over the next few years. I think we all know that.<br><br>But that any major competition issues would be for the CMA with our advice and you know that that would need to you know we will need to be part of that conversation because of the expertise that we have in this in this market.<br><br>On Equinox, I mean look Opnereach's wholesale pricing has come down significantly over the last few years. And what that means is that the consumers you can upgrade to fibre usually at no extra cost compared to FTTC. And if you actually managed to seize that moment to go into your bundle and look at your TV or your landline or whatever, often people are saving money and that's a really good thing. So what we never expected was that pricing would remain where it was. It was a very significant margin between where Openreach was and where the altnets were coming in.<br><br>But clearly it can be very disruptive if there's constant change in the incumbents pricing out there in the market. And that's for us. I mean you know, pick this up further if you'd like to Ben, but that 90 day to 120 day shift from us is really about giving everybody a bit more time because it's the instability in the market that, that, that these discussions and offers create, which is as much our concern as the overall pricing levels. So you know it's the same approach from us, but with a little bit more around it. So that the market can see that it's a bit more managed perhaps than they sometimes felt in the past. |
| Steve Malcolm | All right. OK. So so we should read your, you know your comments as been giving competitors and you more notice you know and a bit more clarity and lead time, rather than a sort of major concerns you have around the overall approach that Openreach has adopted to date. |
| Melanie Dawes | Subject to the other safeguards that are there as part of the of the regulatory framework. |

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| Ben Harries | And I I think I just add to that, I think that the concern is the same as it was in 2021. It's about conditional pricing offers that seek to deter ISPs from using altnets. So there's a penalty in there. When we looked at the Equinox offers, they didn't raise that concern.<br><br>We do also, and we flagged this in the document up front and then it's in in Volume 3, we we discuss conditional offers that seek to rapidly accelerate migration of the legacy base from, sorry, rapidly accelerate migration of ISPs legacy base to full fibre. They may raise concerns, they may not. It depends on the circumstances and it depends on the position that ISPs are in with their altnets. We set out some views on that for consultation. That is a a new piece. We didn't comment on that in 2021. So just to highlight that. |
| Rohit Goel | Great. Thank you very much, Steve. We'll move forward to a question from Justin Funnel at Nextgen Research. Justin, your line is unmuted, please unmute your end and open your camera if you'd like to do so. |
| Justin Funnell | Right. Yeah. Could we talk a bit more about this question about whether to revert to cost-based regulation.<br><br>Obviously the prospects of that is quite negative, not just for BT, but for the altnets and VMO2 as well. So why continue to have that as an option and what are the conditions? What what scenario would you see sort of need to go back to that. |
| Melanie Dawes | Yeah. I mean, I will pass to on Ben on this. There's no, just to be clear, no cost-based regulation during this next five year period is what we're proposing.<br><br>But after that if we were to, we will absolutely honour the fair bet for for BT after that, it's not about taking away the returns that they've earned over this period. But we're going to need to see how the market develops. We hope that we don't need to go back there and we think that the progress we've seen so far is very encouraging that the competition will be there, but it would just be wrong for us as a regulator I think at this point to say that we can you know, it would be it would be, it would be too, too optimistic. And I think the time periods too far away for us to be able to be clear what our regulatory approach is going to be beyond 2031.<br><br>But I think those of you who've been you know well, many of you have been working with us over the last 5-10 years. You know, I hope you're you're experiencing from us that consistency which is what this is all about. We understand that these are very long-term investments. And what we're trying to do is to give as much certainty to the market as we possibly can, so that we incentivise investment and competition.<br><br>You know, competition that is is pretty you know most people would have predicted that this was not going to be possible at all. But we're |

already seeing many households with more options for their network than they had before. So there's already huge progress there, but we're going to have to wait to see it play out before we can confirm where we go after 2031.

But Ben, do you want to answer that?

Ben Harries

Yeah. Thank you. I think the most important thing to sort of get across here is that we are reiterating the approach to future regulation that we sell out in 2021.

So as as Melanie said, you know, we're not going into this with a plan to revert to cost-based regulation at some predefined moment in the future or at some predetermined point when Openreach hits a particular level of returns.

The intention here is that, competition becomes effective and where that's the case, we can we can take a step back.

If competition isn't effective in 2031, but it's still emerging, we'd look to seek to regulate in a way that supports that. Even if we're in a situation where competition hasn't emerged in, in, in parts of the country in 2031, that doesn't necessarily mean that we go straight to cost-based pricing. Look at market outcomes.

So in those areas where competition hasn't emerged, and remember, we're we're in a world where we, we expect there to be areas where there isn't competition and areas where there is competition. In those areas where there's not competition, we'd look at are consumers getting good outcomes. So are they getting similar outcomes to what consumers in areas where there is competition are getting and they might be getting that through the wholesale pricing deals that Openreach is committed to with ISPs or through common pricing constraints. And we would look to take that into account.

It's only after having stepped through all of that, if you still conclude, if we still conclude that, well, there is a, there is a case, for cost-based regulation, well, absolutely that the the, the fair bet is sort of the central principle to that. And fundamentally this is about recognising that there is risk in these investments and our approach would seek to give BT the opportunity to earn above its cost of capital over the lifetime of the investment. And there's lots of detail, the same detail that we set out in 2021, but it's in volume 4 of the document.

Justin Funnell

Thank you. Just to clarify, it sounds like and again this is just hypothetical, but that sort of reverting to cost-based might just be in some areas of the country where competition hasn't emerged, a big geographic basically.

Ben Harries

Yeah, I think the difference from where we are today to where we were in 2021 is we've seen this massive injection of potential competition. So we we can now see on the ground the actual potential for competition, if that makes sense, that the altnets cover in, in terms

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|  | of unique premises, we think that 37% of unique premises. So, you know, provided that competition can become established and our proposals seek to support it in doing that then we we ought not to be regulating in some areas, but it will depend on how the market plays out. Yeah. |
| Natalie Black | And just to add to Ben's point, you know the key stat here, I think is how Area 2 has increased in size since we last looked at the market, right, in terms of 70% in 2021, now up to 90%. But as you say, there's a geographic element to that and you'll see that throughout the document and the attention to detail at a local level. And that's something that we will have to watch over time, how consumers are affected in specific areas. |
| Justin Funnell | Thank you. I mean just final question, final points. I mean obviously in those low areas where there isn't overbuild, they tend to be the low density areas where Openreach's costs are higher. That's the whole point. So you could get cost-based regulation, but access prices that are you know your cost model would suggest quite a high access price. |
| Ben Harries | So so that that is something that we would look at the time. So in setting a cost-based charge control, we would seek to look at the relevant costs for the for the assets that we were seeking to charge control. What we have set out is how we would approach approach the depreciation of those assets. So an economic depreciation approach rather than accounting depreciation approach which we think supports that that opportunity for BT to earn upside in the period before any regulation, if we find ourselves imposing cost-based regulation. |
| Justin Funnell | OK. Thanks very much. Thank you. |
| Rohit Goel | Thank you. Thank you, Justin. And we'll move forward to a question from James Barford of Ender's Analysis. James, your line is unmuted, our end. If you could unmute your end as well please. James. OK. James, your lines is muted, are you able to unmute your end? OK, we'll come back to you if that's OK, James. So we'll move forward to a question from Philip Carse at Megabuyte. Phillip, your line is unmuted. If you could unmute your end and open your camera. Just give us a second. OK, sorry. Apologies. We'll move forward to a question from Andrew Lee. Just bear with us, Andrew. While we unmute our end, yeah, you can go ahead Andrew and unmute your end please. |
| Andrew Lee | Morning. Yeah. Just like to you say thanks for engaging with the investor bases. If you continue to do so, I think one key question mark for investors, and for the investment outlook in networks in the UK, is something you raised. You mentioned that you hope that people appreciate that that your approach of kind of pro-investment over the last decade. I guess prior to that, the approach of regulators across Europe, including the UK, caused a delay in the investment in fibre to |

what we'd have liked to have achieved and obviously the UK is still lagging a number of large markets in in Europe due to that.

So just wanted to touch on how you're thinking philosophically, and you've spoken about this a bit in the post 2031 era of this, you've got what you want in terms of fibre roll out in the UK, but there will still be requirements for investment going forward.

How do you think about that cost-base regulation in terms of the complexity that it creates? Withholding incentives or or or hindering the ability for investors to make further investments in the network, you know, rather than it being this one, one time fibre investment you get what you want, then we move on, then we go back to this kind of anti-investment phase that we've seen up until you know just the last few years. That's that's the main question and just just a follow up question and this, this is probably the wrong way of thinking about it, but in terms of that rule of thumb, or a rule of thumb in terms of effective competition is Area 1 two plus network competitors for BT and Area 2, one plus network competitors for BT. Is there a way that you can help us think about that in a kind of simple framework? Thank you.

Melanie Dawes

Can I just say something at the beginning on that whole question, of kind of investment and Ofcom strategy prior to 2016 and so on. I mean, but the way I see this really is a sort of 40 year story. If you think back to 1985, BT had just been privatised and there was virtually no competition for communications, let alone for networks. The only way that you could really communicate with your friends and family was by picking up a landline phone or sending a letter.

And so while while cable networks were coming in and satellite was beginning to come in, mass market communications was incredibly narrow in terms of the options that were available. And what we've seen over 40 years is technology driven massive increase in competition. That's been deeply profound in this particular industry with satellite and cable coming along and providing connectivity in the home and then mobile, and of course, all the services that are now available over the top, such as messaging, video, audio, which are completely different from just a traditional audio call.

So even if examples such as this particular meeting are slightly more complicated than they perhaps always could be. So I think from our perspective what I think Ofcom has done over the years, you know, not always perfectly at every moment, but certainly in the early 2000s is a good example of we actually regulated to to introduce as much competition as we could get into that home broadband market as it began to develop by creating competition for BT’s consumer business over the top of their wholesale network, so that we were able to stop regulating in that area and move forward and let the market do it instead.

So that's what we're trying to do again. And what we're saying to to you today is that this is still our intent. This is still our aim, is that we we don't have to reintroduce cost-based pricing where competition has emerged. We think that that competition needs to be sustainable. I think we all know that we've been, we've been talking about it. There are some businesses which which you know, we basically need the take-up in order to become properly sustainable for the future. So we think it's too early to call that and I think it would be irresponsible of us to call it today. But everything we're trying to do is to maximise the chances of that coming through for the future because, you know, we believe that a more competitive market is one that delivers better outcomes and that you only regulate where you haven't been able to achieve that. That's our philosophy at Ofcom.

Does anyone want to to add to that? And then you had a you had a second question.

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| Natalie Black | Not to add on that, actually I was going to go to the second question, but I think maybe it's actually worth, Ben why don't we walk specifically through the definitions of Areas 1, 2 & 3 because I think that might help people, it does get a bit complex. |
| Ben Harries | Yeah, no, I can do that. So as we, as we did in 2021, we recognise that competitive conditions vary and we want to tailor our regulation depending on that.<br><br>For Area 1, what we, the way we've defined that is, are there two or more sufficiently well established competitors. To be clear, it's just as a point of detail, when we when we think of Area 1, we're not asking the question at that point, is there effective competition, that's a that's a that's a second stage question. So at this stage it's just, are there areas where there's sufficiently well established competition that that we would want to separate them out. And ultimately that might be to, would probably lead to treating them separately, differently in terms of remedies. And as I said earlier, we've, we've not identified those areas.<br><br>Then in terms of Area 2, they are areas where there is already, or the potential for material and sustainable competition. So that might be areas where there are material and sustainable competitors. They might be existing competitors such as VMO2 that is a material and sustainable competitor. It might be a large new entrant competitor such as CityFibre or some of the other mid-sized altnets. We've also reflected there in our Area 2 definition the smaller altnets. And our thinking there is that whilst individually they might not be material in a sustainable competitors, in terms of the degree of constraint they place on be on Openreach today. It could be that through a process of consolidation, they could become that. So we've factored that into our assessment of Area 2.<br><br>And then Area 3 is by definition the areas where there is not potential for material and sustainable competition. |
| Andrew Lee | Sorry, just so I quick follow up. Thank you. Just in terms of material and sustainable, is one sustainable competitor enough? |

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| Ben Harries | OK. So the view that we've taken in, in, in our proposals today is that we would want to see two, at least two, material and sustainable competitors to identify an Area 1 and part of the reasoning for that is that we found that historically, and within our proposals today, we found that competition from Virgin Media O2 is is not enough to constrain Openreach. |
| Rohit Goel | OK, great. Thank you, Andrew. We'll now move forward to a question from Robert Grindle at Deutsche Bank. Robert, your line is unmuted, our end. If you could unmute your end please. |
| Robert Grindle | OK, I think that works. Thank you. Well done. On the new consultation and the heads up.<br><br>One of the proposals is on new restrictions on duct and pole access to maintain the level playing field. What are the type of prices that were unfair and broadly what is changing there please? Is it just a pricing thing or was there a behaviour, behavioural issue, what was going awry that you needed to tilt the rudder on the PIA, please? Thank you. |
| Ben Harries | Shall I take that. So PIA is our foundational remedy in terms of delivering our strategy. It's what unlocks the business case for altnets to build fibre networks in competition with Openreach. And we think it largely it's it's been a successful remedy. It's been transformational in terms of the sort of market change that we've seen and we hear that feedback.<br><br>That said, we're not complacent. In terms of the, what I think you're referring to, there's sort of two elements that I'd highlight.<br><br>So, one relates to our rules around discrimination, so ensuring that Openreach does not discriminate in favour of its own use of the infrastructure compared to that of third parties. We're not changing our fundamental approach to that. So we're sticking with, sticking with our strict no undue discrimination obligation, but we are emphasising, we're reiterating our commitment to making sure that that works.<br><br>So Ofcom has since 2021, we've been heavily engaged in PIA. So Melanie has her Chief Executive level meetings. We have a team that that monitors the remedy. We engage in the OTA led industry discussions, and we'll continue to do that.<br><br>On pricing, I think it's fair to say that there's been a lot of noise around PIA pricing over the over the last year or two. What we've done there is looked at the way that we set those prices. We're not changing the fundamental approach. But when we set those prices, effectively in very simple terms, we calculate the unit cost of a piece of infrastructure, say a metre of duct, and then we decide how that should be shared between Openreach and third-party users. Those shares are called fair shares. We've looked again at those fair shares |

and we have changed the fair shares, we're proposing to change the fair shares for lead-in infrastructure. So that's the lead-in duct and it's the the use of the pole for the drop wire to the premises.

And now we're proposing to reduce those fair shares. So third-party users pay lower PIA charges as a result of that.

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| Melanie Dawes | Let me just add, Robert, you you were asking, you know, do we have a concern around behaviours, what was going on here? We don't have a concern around behaviours. As Ben says, I chair every six months a round table of all the CEOs. The next one is in a fortnight and it's been very complicated for Openreach's, sometimes rather creaking infrastructure to be shared by their competitors. But the relationships are very strong and I think the goodwill and the intent to make this work by Openreach is not something that we have a concern about.<br><br>But as Ben said, we're making a few changes here that are really updates, but overall we we consider this, that this is working and and and as you said Ben, it's a foundational remedy for this whole framework. |
| Robert Grindle | Good to hear. Thank you. |
| Rohit Goel | Great. Thank you, Robert. So we've, we've got about 10 minutes left for questions and we'll move forward to go back to James Barford at Enders analysis. James, your line is unmuted. If you could unmute your end please. James?<br><br>OK. In the meantime, I've been sent through a question from Maurice Patrick at Barclays, who's unable to join the call right now. He'd like us to elaborate on our comments about fostering infrastructure competition and numerous press reports out there that suggest that many altnets are struggling to raise further funding and that both BT and VMO2 are also similar as well.<br><br>Do you see it as your role to protect the altnet industry? |
| Melanie Dawes | We've probably said quite a bit about this already. Do you think that probably reiterate what we've said so far? |
| Natalie Black | I mean, ultimately our focus is always going to be ensuring competitive, thriving market with good outcomes for investors and consumers.<br><br>In effect, what we're seeing at the moment in terms of those altnets that are struggling, in some ways that experience is is not unique across the investment environment. This is not a challenge that is unique to telecoms.<br><br>But what we are doing with the Telecoms Access Review is making sure that we're giving everyone the best opportunity by setting out a level playing field. |

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|  | And I think certainly from the reaction that we've seen so far, the emphasis that we've placed on continuity, keeping our part of the bargain, setting out a clear vision for not only the next 5 but years, but giving an indication of what happens post 2031. That's the continuity and stability that we understand the market wants to see and that's what we can do as a regulator. |
| Ben Harries | Like, I guess maybe I'll just add to that. I think, one of the you know it's it's not our job to protect particular business models. We're we're not here to ensure that any operator, be that BT, or altnets, succeed in their business that they've invested. They've taken that that risk on and that's for them, albeit you know see earlier comments on sort of recognising the risk that they're taking there. What we are seeking to do is maintain an opportunity for reasonably efficient altnets to succeed in this market.<br><br>It's not a guarantee, it's an opportunity and that sort of flows through all of our, all of our regulation here. So hopefully that helps as well. |
| Rohit Goel | Great. Thank you to Maurice. So we'll move forward to a question from Ottavio Adorisio at Bernstein Societe Generale. Ottavio, your line is open our end, if you could unmute your end, please. |
| Ottavio Adorisio | Perfect. First of all, good morning and thank you for the opportunity to participate in the call. Inevitably have a few follow up questions.<br><br>You didn't want to cage on any commitments on introducing cost-based regulations. Understand why, the market's moving very fast. But in the comments you said that cost-based regulation will be introduced where competition is not effectitvely sustainable, so.<br><br>It's very likely that Area 2 will narrow over time, but it will be still there. So the question is, in a follow up from Justin asked earlier.<br><br>If cost-based regulation will be introduced, which cost you take into account. The cost that basically roll out infrastructure in the areas in Area 2, or will be a nationwide.<br><br>The second one it's when defining the market in Area 2. Over the last few years we had a significant developments on satellite communications. It's very likely in the next 5 will have even more than that.<br><br>Can at at the moment don't think satellites offering is part of the what you define as competition, effective and sustainable. But do you reckon that satellite's offering could become part of the equations when you define SMP for BT?<br><br>And the third one. It's a bit on the semantics, you keep saying about excess returns for the lifetime of investments. So my question is that what is the lifetime of investments. The deployment phase, or effectively the entire lifetime of the fibre infrastructure. Thank you. |

Ben Harries

OK. Shall I take so some steps to some of those and others come in if you want to.

So on future cost based regulation, I do just want to emphasise. So in a scenario where effective competition does not emerge, does not automatically mean that we would impose cost-based regulation in those areas. We would look at market circumstances and hopefully we've been clear on that both in the document and in the earlier comments on this call.

But in the event that market circumstances pointed to a need to impose cost-based charge controls in parts of the country. We would, we would seek to in doing that we would seek to honour the fair bet and we'd look at the investments that were taken, the risks faced at the time, the cost of capital at the time of that investment and ensure that returns sufficiently rewarded those risks.

On your specific question, would we use national costs or the the specific cost of those areas? I think typically Ofcom's approach has been to basically based cost-based regulation on the costs associated with the with the assets that we're we're regulating. But that is a decision that we would look at at the time. I'm I'm you know we've we've not set out our specific approach in relation to that.

And on satellite, I think your question was sort of the role of satellite. I mean we we can clearly see that the satellite technology is emerging and indeed we've, you know Ofcom has played a vital role in in the development of that, enabling that technology to be exploited in, in the UK. I think when we look at this, the question is from our point of view, do wireless technologies mean that Openreach does not have market power for the for the next five years? No, they don't, that these are not mass market technologies that are capable of constraining Openreach for fixed broadband services.

We can see that satellite will play an increasingly important role, particularly in the delivery of high-quality connectivity in the hardest to reach areas. But for our purposes, the question is does it undermine, or does it mean that Openreach does not have SMP, and the answers, the answers firmly, no in our view in these proposals.

Then on the lifetime of the investment, I think the answer to that one is quite straightforward. The lifetime of the investment is clearly not just the deployment phase. We're looking at this over the deployment and payback period phase. We recognise that deploying these networks is one thing, but given the high cost, the payback on these networks will be a much longer period of time.

Natalie Black

Can I just come in on the point on satellites. I think it's worth remembering that our focus for the Telecoms Access Review is actually relatively narrow. Right, the the expectations of what we do here is predetermined, clearly set out, but of course more broadly we are looking at the future of connectivity and how the expectations of consumers are evolving, expecting to be connected everywhere all of the time.

In due course we have a consultation coming out on satellite to mobile, and of course you would have seen the work that Vodafone did a few months ago enabled by an innovation licence from Ofcom. So this is an area that we will continue to take a lot of interest on. Obviously, we want to understand how the market is evolving. But as Ben says, for the specific piece of work, it is treated separately.

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| Rohit Goel | Great. Thank you, Ottavio. And I think with that we're pretty much out of time. So I'd like to say thank you to Melanie, Natalie and Ben and also to all of you for listening in. There will be a replay and a transcript available on the Ofcom website. And as I said earlier, if you do have any follow on questions, please feel free to get in touch with me at analyst.relations@ofcom.org.uk. Thanks again and have a good day. |