Promoting investment and competition in fibre networks

Wholesale Fixed Telecoms Market Review 2021-26 consultation: Addendum 1

Comments on Ofcom's Annex 21 – Cost of Capital

July 2020

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1 Introduction

1.1 This addendum to TalkTalk's May 2020 submission responding to Ofcom's WFTMR proposals comments on Ofcom's Annex 21, which provides Ofcom's preliminary views on the appropriate cost of capital.

1.2 TalkTalk notes that Ofcom sets out at various points in its annex that it plans to reconsult on several aspects of the WACC which have not been updated since the 2019 BCMR. TalkTalk welcomes this. As we set out below in the section considering the impact of COVID-19, market conditions have changed greatly since early 2019, and may change further between now and the conclusion of Ofcom's review.

1.3 Overall, TalkTalk considers that the methodology applied by Ofcom is broadly appropriate. However, Ofcom should consider moving to a full indexation approach for the debt allowance provided to Openreach, whereby the allowed cost of debt would be set in line with movements in an index of bond prices across the regulatory period, particularly in light of Ofcom's current proposal that the WACC would primarily be used to determine price caps for WLA and BCMR services in Area 3. This would bring Ofcom in line with other UK regulators and reduce risk for Openreach.

1.4 Beyond debt indexation, TalkTalk considers that several amendments are required to Ofcom's current proposals:

- Ofcom has provided no reasoning for its proposed increase in the ERP to 7.4%, which is out of line with the approach of other regulators. It should provide such reasoning; TalkTalk may then comment further on this proposal;
- Ofcom should reassess the RFR in light of recent market evidence and the recent draft determinations by other UK regulators;
- Ofcom should disaggregate BT Group's gearing, and set a slightly higher optimal gearing level for Openreach than BT's Group's actual gearing;
- Ofcom should not apply an asset beta uplift to reflect the inclusion of FTTC products within the Openreach basket for the purposes of beta disaggregation, as FTTC products no longer have meaningfully higher demand risk, nor higher operational leverage, than wholesale copper broadband products;
- Ofcom should extend the Openreach basket to include inter-exchange active leased line circuits, which are likely to exhibit little or no systematic demand risk, including risk due to bandwidth moves;
- Ofcom should set the Openreach asset beta at or below the midpoint of the range of other listed UK utilities and BT Group, rather than slightly above this midpoint. This reflects the reducing systematic demand risk associated with fixed line broadband services given their increasingly utility-like nature.

1.5 If the outcome of Ofcom's decision is a material reduction in the WACC then this should be implemented using a starting charge adjustment to be consistent with Ofcom's policy to only not use a starting charge adjustment when costs and prices are misaligned due to efficiency or volume outperformance.

1.6 Other than these points, TalkTalk broadly agrees with Ofcom's proposals, pending further consultation on the precise parameter values to be adopted.

2 Overall framework

2.1 At §A21.11, Ofcom sets out its objectives when setting the cost of capital. In summary, these are the following:

- providing efficient pricing and investment signals, to create efficient decisions between market participants building or renting infrastructure;
- ensuring that efficiently incurred costs are expected to be remunerated;
- ensuring regulatory consistency; and,
- allowing transparency of the regulatory decision-making process.

2.2 TalkTalk agrees with all of these goals. However, we note that Ofcom does not have a goal to ensure that prices to consumers are kept as low as possible, consistent with ensuring that efficiently incurred costs are remunerated. While this is generally implicit in the goal of providing efficient investment signals, this is not the case in Area 3, where it is expected to be uneconomic for altnets to invest, irrespective of the price set by Openreach. In such natural monopoly areas, Ofcom should also pursue the goal of maximising benefits to consumers through setting the WACC no higher than required to enable efficient cost recovery.

2.3 We also note that Ofcom's current approach appears unlikely to be consistent with a goal of providing efficient investment signals for build/ rent decisions. By inflating Openreach price caps to a level well in excess of its underlying costs, entry by entrants with costs above those of Openreach will be encouraged. This will lead to reductions in both allocative and productive efficiency. Ofcom has provided no evidence of dynamic efficiency benefits which would offset these losses.

2.4 TalkTalk agrees with other elements of Ofcom's proposed framework for assessing the WACC:

- we agree that it is appropriate to use the Capital Asset Pricing Model to estimate the WACC (§A21.13);
- we agree that it is appropriate to estimate the equity beta by engaging in a three-way split of the asset beta (§A21.14);
- we tentatively agree with calculating the cost of debt by reference to the weighted average cost of existing and new debt, particularly given the RAB model which Ofcom proposes in Area 3 (§A21.15). However, we are concerned that at this point, over a decade after the Bank of England's quantitative easing programme came into effect,

an efficiently financed company should have been able to largely reflect lower debt costs in its financial structure. We therefore consider that the cost of debt should largely reflect the cost of new debt, with limited weight placed on the cost of any debt issued before QE was put in place.

3 Parameters of the WACC

3.1 At §§A21.18-21, Ofcom sets out its thinking on various parameters which go towards the calculation of the WACC: the nominal RFR, the real ERP, the corporate tax rate, and the inflation assumption.

3.2 With regard to all of these parameters, TalkTalk notes that Ofcom has not adduced new evidence since the BCMR19 statement. Given the dramatic events since that time, including Brexit and the ongoing Covid pandemic, it is likely that there may be significant differences from earlier estimates. Ofcom should fully take these potential differences into account, through a detailed review of data updated to include the impact of Covid.

3.1 Taking account of uncertainty

3.3 The impact of the pandemic is also likely to mean that in the short term there is greater uncertainty around the parameters of the WACC, and that the appropriate parameters may change over the course of the review period. Ofcom should adopt an approach which takes this into account.

3.4 The best approach that Ofcom could adopt to enable uncertainty to be dealt with would be indexation of various parameters of the WACC, so that the parameters are automatically adjusted during the regulatory period to reflect (unforecast) changes in the cost of capital. Such an approach has been successfully adopted in other regulated industries, primarily for the cost of debt:

- in Ofgem's RIIO-2 review, for which the draft determination was recently released, it proposes to index the cost of debt.[1] In its earlier May 2019 methodology paper, it set out several benefits of an indexation approach:[2]
  - that it references relevant independently produced benchmarks;
  - that it provides a single allowance that covers both embedded debt and new debt;
  - that it adjusts annually to capture changes in market conditions, thereby adjusting for likely changes in the cost of raising new debt;
  - it is transparent and simple;

[1] Ofgem (2020), *RIIO-2 Draft Determinations – Finance Annex*, at section 2.

[2] Ofgem (2019), *RIIO-2 Sector Specific Methodology Decision – Finance*, 24 May, at section 2.

  - it can be calibrated to provide a good estimate of efficient sector debt costs; and,
  - it incentivises networks to efficiently manage debt costs.
- in Ofwat's PR19 review, the cost of new debt was indexed by reference to the average of the A and BBB rated iBoxx non-financial 10+ years indices.[3] Benchmark index evidence was also taken into account when determining the cost of embedded debt.[4]

3.5 In its recent RIIO-2 draft determination, Ofgem proposed to use the Markit Utilities 10 years+ index to determine the appropriate cost of debt benchmark, noting that this was a better match for network debt costs in times of financial distress than the use of an A/BBB index, exhibited a lower halo than an A/ BBB index, and that it was a broad and representative index.[5] The use of such an index appears to offer significant advantages, and should be considered by Ofcom rather than the use of an index which is not specific to the utility sector.

3.6 TalkTalk considers that Ofcom should consult on whether to adopt a debt indexation approach for the forthcoming charge control period. Its current approach is out of line with other UK regulators, which is particularly relevant in light of Ofcom's proposal to move to a RAB approach in Area 3, and that the cost of debt only has a direct impact on charge controls in Area 3 under Ofcom's proposals.

3.7 An alternative approach to dealing with uncertainty would be to allow for the reopening of the WACC settlement if the outturn cost of debt deviated from the expected cost of debt. However, this approach has several undesirable characteristics. It is likely to lead to asymmetry of returns, with Openreach only requesting a reopening in the event that the cost of debt rises above Ofcom's estimate, with no corresponding reopening in the event that the cost of debt falls below Ofcom's estimate. This will lead to ex ante expected supernormal profits for Openreach, to the detriment of customers. It is also likely to increase regulatory risk for market participants, particularly if the criteria for reopening are unclear. Ofcom should therefore discard any consideration of this approach, and should adopt debt indexation.

3.8 In TalkTalk's view, debt indexation in telecoms charge controls would be an improvement on Ofcom's current proposed approach for several reasons:

- it would be more consistent with the approach adopted by other regulators (as set out at §3.4 above) and so would reduce regulatory risk;
- it would allow the WACC to adjust to prevailing market conditions, increasing the accuracy of the estimated WACC and reducing the risk of both supernormal and subnormal returns;

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[3] Ofwat (2019), *PR19 final determinations: Allowed return on capital appendix*, at page 78.

[4] Ofwat (2019), *op. cit.*, at page 85.

[5] Ofgem (2020), *op. cit.*, at §2.16

- it therefore also reduces the risk that Ofcom may have to reopen the charge control due to unforeseen events, by supporting the financeability of Openreach;
- it is well understood by infrastructure investors;
- it can easily and practicably be adopted by Ofcom.

3.9 In the event that Ofcom does not choose to move to a debt indexation approach, Ofcom should therefore make clear in its final determination that there are no circumstances under which it can envisage reopening the permitted cost of debt, even if the outturn is considerably different from Ofcom's allowance. That is, it should not attempt to provide for financeability – which is not, in any case, one of Ofcom's duties – through permitting *ad hoc* reopenings of aspects of the charge control.

3.2 Comments on specific parameters

3.10 As TalkTalk considers that Ofcom should adopt a debt indexation approach, the only parameters which are commented on in this section are those which go towards determining the cost of equity, as the cost of debt is drawn from iBoxx (or similar) data at the time the review comes into effect.

3.11 **Nominal RFR**. Ofcom proposes a nominal RFR of +1.5% (equivalent to a real RFR of about -0.5% assuming 2% CPI), in line with its proposals in BCMR19 (§A21.18). This now appears radically divorced from market evidence and the approach of other regulators. In its RIIO-2 proposals, Ofgem sets out an estimated real RFR of -1.48% (Table 9)– a figure nearly 1% below that proposed by Ofcom. TalkTalk considers Ofcom's estimate of the RFR to be untenable and legally unsustainable. An attempt to subsidise Openreach in Area 3 by setting such an excessive RFR will harm consumers and distort investment decisions without any offsetting benefits. At the same time, it will increase regulatory risk through inconsistency with other regulators' decisions. Ofcom should reconsider its proposals in this regard; ideally it would use an approach aligned with that of Ofwat and Ofgem, leading to significant reductions in the RFR.

3.12 **Inflation assumption**. TalkTalk agrees that it will be appropriate to use OBR forecasts of CPI inflation for as long a period as those are available, and to use the Bank of England's inflation target as the assumption for any remaining part of the control period which is not covered by these forecasts. However, Ofcom proposes a 1% wedge between RPI and CPI, which appears excessive. Ofgem in its RIIO-2 proposals has set a wedge of 0.813%, in line with OBR forecasts for 2024.[6]

3.13 **Nominal Expected Market Return (EMR) and Equity Risk Premium (ERP)**. Ofcom sets out at §A21.20 that it plans to adopt an ERP estimate of 7.4%, a slight increase from the 2019 BCMR statement, implying a nominal EMR of 8.8%. However, Ofcom does not provide any reasoning for this increase in the ERP, merely stating that it remains within the range implied by the various data sources set out in the 2019 BCMR statement. This means that it is not possible for stakeholders to comment on the appropriateness of this change in parameters.

[6] Ofgem (2020), *RIIO-2 Draft Determinations – Finance Annex*, §1.8

Ofcom should set out in detail its rationale for proposing this change. In doing so, Ofcom should also take into account that this nominal EMR estimate is above the top end of the range set out by Ofgem in RIIO-2, where a real EMR range of 6.25%-6.75% was proposed.[7] This tends to imply that any changes by Ofcom should be to reduce, rather than increase, its EMR estimate in order to bring it closer to the level proposed by other regulators.

3.14 **Beta**. Ofcom sets out at §A21.31 that it will review the various beta estimates in due course, and then consult on them. TalkTalk looks forward to commenting when Ofcom does so.

3.15 **Gearing**. Ofcom also states that it will reconsult on the gearing in due course, but at present proposes to use 40% as the gearing for both BT Group and Openreach in its WACC calculations. As TalkTalk has previously set out to Ofcom in prior submissions on the WACC, we consider that the gearing assumption for Openreach is meaningfully too low. In RIIO-1, Ofgem set a notional gearing level of 62.5% for gas transmission, 55-60% for electricity distribution, and 65% for gas distribution.[8] For RIIO-2, although Ofgem has said that it needs to assess business plans, it has used a working assumption of a 60% gearing value. Ofwat in PR19 also used a notional gearing of 60%.[9]

3.16 It has been evident for many years that broadband has characteristics increasingly like those of utilities, with low willingness to forego fixed line broadband service, and the essential nature of the product to many households. This can be seen in recent policy developments, with the imposition of a USO and the recent deal between DCMS and ISPs during the Covid lockdown which meant that customers were not disconnected for reasons of non-payment, both of which are consistent with the regimes in other utility industries such as gas and water.

3.17 Indeed, the proposed gearing for Openreach is some way below the level sustained by even a firm such as TalkTalk. As of 24 July 2020, TalkTalk had a market capitalisation of £893m, and reported net debt of £954m.[10] TalkTalk therefore held a gearing of 52%, despite operating in a more competitive downstream market environment than Openreach's dominant position in the upstream network market, broadly aligned with the level of risk seen in 'other UK telecoms'. This implies that the 'other UK telecoms' part of BT could have optimal gearing in the 40-50% range, with a higher optimal level of gearing for the core Openreach business.

3.18 The lower gearing likely reflects the different risks and different optimal gearing levels of the various parts of BT group. BT's high-risk IT consulting business may have an optimal gearing level close to zero, implying higher optimal gearing levels in the rest of BT Group. Ofcom should make two changes from its current proposals:

[7] Ofgem (2020), *op. cit.*, at §3.11

[8] Ofgem (2019), *RIIO-2 Sector Specific Methodology Decision – Finance*, §7.21

[9] Ofwat (2019), *PR19 Draft Determinations: Cost of Capital technical annex*, Table 1.1

[10] At 31 March 2020, the end of the preceding quarter.

- for BT Group as a whole, Ofcom should use optimal gearing rather than actual gearing. This would be in line with the approach of other regulators, which have used notional gearing in recent reviews;
- Ofcom should then disaggregate this optimal gearing across the three units which it has defined, with Openreach having the highest gearing, other UK telecoms somewhat lower gearing, and RoBT with a gearing close to zero.

3.19 TalkTalk also notes that Ofgem proposes equity indexation in its RIIO-2 proposals.[11] In such a volatile and uncertain market environment, with substantial risk of both under and over-estimation of the cost of equity, TalkTalk considers that there is much to recommend this approach, which Ofcom should seriously consider through the remainder of its review.

3.3 Beta disaggregation

3.20 Ofcom's proposals on beta disaggregation are somewhat more developed than those in other areas. We therefore comment on them in detail in this submission.

3.21 At the outset, it is important to state that TalkTalk strongly supports Ofcom disaggregating BT Group's beta in order to determine the appropriate beta for Openreach's regulated products. The regulated lines of business are much lower risk, and much less cyclical, than other parts of BT Group. It would be inappropriate if Ofcom amended its proposals to have less than a tripartite split of the beta which it currently proposes.

3.3.1 *Broadband services*

3.22 TalkTalk agrees (§A21.37) that there has been a fall in voice usage which we expect to continue throughout the period. The recent pandemic, and associated working from home, has demonstrated the extent to which calls which would previously have been made as 'landline' voice calls have now moved to video calls over services such as Zoom and Teams, which from the perspective of telecoms operators appear as data. We agree that this implies that Ofcom should reconsider the basis on which the tripartite split of BT's beta occurs, and that it is appropriate (§A21.41) that the Openreach category should capture core connectivity activities.

3.23 We also agree that copper-only services on their own no longer represent core connectivity, as a low and rapidly reducing proportion of customers take copper products without at least an FTTC overlay. [✂]% of TalkTalk's residential customer base currently take an FTTx product, a proportion which continues to increase sharply. Several major ISPs no longer offer copper-only products to new customers, and we envisage that more will cease copper-only provisioning as we move into the control period.

3.24 Moreover, Openreach is now beginning to issue MPF/FTTC stop sell notices at exchanges around the country, providing ISPs with notice that ultrafast coverage (FTTP and G.Fast > 300Mbps) roll-out has reached (or will reach within 12 months) 75% of premises within an

[11] Ofgem (2020), *op. cit.*, §3.7

exchange area, and that in 12 months' time Openreach will no longer offer new connections or upgrades on copper products, whether with or without an FTTC overlay, where ultrafast is available.[12] At the end of June Openreach applied such stop sell notices to 117 exchanges in addition to the Salisbury trial exchange. This will mean that in these exchanges there is simply no scope to downgrade from FTTC to copper-only products after July 2021.

3.25 We therefore agree with Ofcom's statement at §A21.43 that the systematic risk associated with broadband is now likely to be low. We agree that, at broadly competitive prices, the demand for broadband services is likely to prove resilient. In particular, we agree with Ofcom's statement at §A21.45 that the systematic demand risk of FTTC products has reduced. This risk is, for practical purposes, the same as the demand risk associated with copper-only broadband products. We consider that the risk associated with customers downgrading from 80/20 to 40/10 products is limited, not least because many customers are taking retail products (such as Sky Fibre Max) where they are not even aware of the product that they are on, and where the price charged by the ISP is a blended rate across 40/10 and 80/20 wholesale products.

3.26 At §§A21.49-A21.51 Ofcom sets out that it considers that the capex required to roll out an FTTC network was low in comparison to that required to roll out an FTTP network. TalkTalk agrees that this is the case. However, we do not agree that this might require a slightly higher asset beta than in previous decisions. The operational leverage of the FTTC network is if anything lower than that of the copper network which it has replaced: ducts and poles are already in place, which would not have been the case for the initial roll-out of the copper network, and fibre optic cable is cheaper to purchase than copper cable.[13] When compared with a copper network, this consideration points to lower operational leverage and therefore a lower asset beta. Ofcom does not appear to have undertaken any comparative analysis of the relative operational leverage of copper and FTTC networks.

3.27 We therefore consider that it is appropriate to include FTTC within the 'Openreach' category, but without any asset beta uplift to reflect this change of approach.

3.28 TalkTalk agrees that, during the next control period, there will be higher systematic risk associated with FTTP services than with copper and FTTC services. This reflects slightly higher demand risk than for legacy services, although this risk will be much reduced by the stop sell on MPF/FTTC products which will be put in place by Openreach when ultrafast (FTTP and G.Fast >300Mbps) rollout in an area has exceeded 75%; along with meaningfully higher operational leverage for FTTP than for FTTC.

3.29 TalkTalk also agrees with Ofcom's analysis that the extent of this higher risk is likely to reduce over time, and that during the 2026-31 control period, the risk is likely to be similar between FTTC and FTTP, as both demand risk and operational leverage for FTTP fall (§A21.57).

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[12] TalkTalk does not support the inclusion of G.fast lines providing >300 Mbps in the 75% and complete coverage thresholds: see section 6.3.4 of main response.

[13] Services that require significant upfront investments or have a higher proportion of fixed costs are considered to have high operational leverage (See §A21.44 of Ofcom's consultation)

3.3.2 *Leased line services*

3.30 At §§A21.60-A21.67, Ofcom considers whether active leased line services and dark fibre access services should sit within the Openreach or Other UK Telecoms category for the purposes of beta disaggregation.

3.31 Ofcom divides its consideration of leased line services into two elements: active leased lines and dark fibre leased lines.

3.32 As regards active leased lines, Ofcom notes that it has previously included them as part of other UK telecoms, on the basis that business demand is more sensitive to macroeconomic conditions than consumer broadband demand. It therefore proposes to do so once again in the current charge control.

3.33 TalkTalk partly agrees with this approach. Active leased line demand can be divided into two elements:

- demand for leased line circuits in the access layer. This includes circuits for businesses as well as mobile backhaul circuits connecting to base stations. TalkTalk agrees that demand for business circuits may show some cyclical volatility, primarily due to business failures during economic downturns. Although it is outside TalkTalk's direct area of knowledge, it would seem likely that mobile base station backhaul would have limited cyclical demand risk, and should be included within Openreach.
- demand for inter-exchange active circuits which are used by fixed and mobile operators for backhaul. TalkTalk does not agree that this demand will show meaningful cyclical volatility, as it will be primarily driven by the demand for consumer broadband and for consumer mobile phone services. It is unlikely that CPs trade down to lower bandwidths in response to cyclical events: consumer demand for data is growing rapidly, and most backhaul circuits are on multi-year contracts which cannot easily be broken. Bandwidth reductions, which would usually involve reducing bandwidth by 90%, would have a disastrous impact on customers' achieved speeds, and would not be countenanced by any CP as a cost saving measure. The cyclicality of these circuits will essentially be the same as that for dark fibre circuits, which Ofcom currently proposes to place within the 'Openreach' basket. Ofcom's reasoning for placing dark fibre circuits within the Openreach basket is that bandwidth demands and revenue will be invariant to the economic cycle, which will be the case both for dark fibre and for inter-exchange circuits.

3.34 In effect there is a heirarchy of risk across Openreach products, with FTTC broadband products the lowest risk, followed by IEC products, with access leased line products being higher risk again. BT Group's retail businesses, in BT Consumer and BT Business, are higher risk than any element of Openreach. The risk of IEC products is closer to that of FTTC broadband than to access leased lines.

3.35 Consequently, IEC circuits should be included within the 'Openreach' element of the beta, as they are non-cyclical in nature; this would be an amendment to Ofcom's proposal. Other active leased line circuits can, in line with Ofcom's current proposals, be included within the 'other UK telecoms' group.

3.36 TalkTalk agrees that, where available, demand for dark fibre products used for inter-exchange connectivity and for access will not be related to bandwidth. They will therefore have lower cyclicality (and have lower operational leverage due to the lack of need for Openreach to provide electronics) than their corresponding active access circuits and therefore should fall into the Openreach part of BT for beta disaggregation purposes.

3.4 Beta weightings

3.37 Ofcom proposes (Table A21.8) to weight the beta 25% Openreach; 60% Other UK Telecoms; and 15% Rest of BT. It is somewhat difficult to comment on these weightings, since the evidence as regards BT's IT operations is redacted. However, based on the evidence presented, the weighting of Openreach appears to be broadly appropriate given that this is broadly in line with the proportion of net book value represented by Openreach.

3.5 Openreach asset beta

3.38 Ofcom sets out at §A21.74-75 its proposals regarding setting the asset betas for Openreach and for other UK telecoms.

3.39 For Openreach, it proposes to use an Openreach asset beta 'slightly above the midpoint' of the range between BT Group and listed UK network utility asset betas. Ofcom states that this reflects that two competing networks increases the operational leverage of each, which justifies a slight increase from the previous review period.

3.40 Although TalkTalk agrees that two competing networks will slightly increase the operating leverage of both, we do not consider that this justifies an increase in the asset beta to above the midpoint of the range. This primarily reflects two factors:

- the increased operational leverage impact is likely to be small since there is no real sense in which the networks compete since they are both controlled by Openreach. The process set out by Ofcom for copper retirement envisages a rapid migration of customers from FTTC to FTTP. This means that there will be a limited period of joint running of the two networks, with a stop sell on FTTC products coming into effect when Openreach has passed 75% of premises in an exchange area with ultrafast (FTTP and G.Fast > 300Mbps). The short likely period of joint running, as customers rapidly migrate to FTTP following the stop sell, will limit the increase in operational leverage. In Area 3, there will be no competing networks, so there will be no increase in operational leverage.
- at the same time, systematic demand volatility for Openreach products is likely to have reduced. The current Covid-19 pandemic has demonstrated the importance of home connectivity to residential customers, and has led to demand for broadband products becoming ever more utility-like, with very little demand risk and no meaningful customer willingness to migrate down to lower speeds.

3.41 The overall net impact of these two points across the next control period is offsetting; as such, TalkTalk considers that the most appropriate course of action would be to leave the Openreach asset beta at or below the midpoint of the range between BT Group and listed UK network utility asset betas, reflecting the low risk of broadband in a market environment with increased homeworking and connectivity needs. Evidently, the previous estimated betas for both BT Group and other UK utilities will need to be updated ahead of Ofcom concluding its review.

4 Disaggregation of BT's cost of debt

4.1 We agree that Ofcom should disaggregate BT Group's cost of debt.

4.2 TalkTalk agrees with Ofcom's view (§A21.78) that Openreach would sustain a higher debt rating than BT Group, and we consider that it could do so even at a somewhat higher level of gearing than the group as a whole, given the low risk and strong cashflows generated by the Openreach business. We therefore consider that it is appropriate to assume that Openreach would be rated one notch higher than BT Group as a whole.