Grain Connect

2026-10-28 SENT

Response to CMA's Interim Report

Introduction

We are grateful for the opportunity to provide the CMA with this response to the provisional findings in the Interim Report and stand ready to help in any way we can.

For the reasons set out below, we respectfully submit the opposite view of the impact on competition: that this Transaction is pro-competitive in the wholesale market. This is for six reasons.

1. The CMA's counterfactual is implausible.
2. The most important dynamic of competition is that between the Altnets and Openreach; competition between the Altnets and each other is secondary.
3. Because of this, overlap between the parties does not increase competition but **reduces** competition, which is the opposite of the CMA's finding.
4. The most important choice criteria for ISPs in buying wholesale services are scale, service and price: overlap is of secondary importance.
5. Rivals to Openreach are price takers in the wholesale; flexing of terms in overlap areas is minor by comparison.
6. The Transaction would result in a **more** competitive wholesale market structure, consisting of three scale competitors (nexfibre-Substantial, CityFibre and Openreach), than the CMA's counterfactual, which would result in only two scale competitors (CityFibre-Substantial and Openreach).

The wholesale market is extremely fragile financially. The emergence of serious competition to Openreach by a third wholesale provider should welcomed by the CMA.

Background to Grain

Grain is a vertically integrated alternative network operator (Altnet) with c.367k premises passed (building to over 500k) with over [✂] subscribers at present; it is profitable and fully funded (see our previous submissions for more details). We do not operate, and have no intention of operating, in the wholesale market and so do not have a positive or negative commercial interest in that market arising from this Transaction. There is no SLC in the retail market. We offer these reflections on the Interim Report as moderately objective observer of the realities of the market, as seen from our perspective, motivated to ensure the CMA does not make a mistake by preventing a transaction that is positive for competition and investment in the sector.

[✂].

CMA's Provisional Findings

The provisional finding in the CMA's Interim Report is that the Transaction results in a significant lessening of competition because the overlap between nexfibre-Substantial and CityFibre would be 18% whereas the overlap in the counterfactual case between CityFibre-Substantial and nexfibre would be 32% (para. 34). Higher overlap is considered to **increase** competition. We respectfully submit that this finding is mistaken for six reasons.

1. The counterfactual is implausible

The CMA expresses confidence that "CityFibre would likely have been able to raise the required funding for a valuation that was acceptable to Substantial's shareholders" (23). We consider this to be implausible for the following five reasons.

CityFibre was not in fact able to make a competitive offer for Substantial at the time of the Transaction. Whatever optimism as to being on track to raise the finance CityFibre and its investors might have expressed, sufficient finance was not in fact raised. [✂].

That was true at the time of the Transaction. It is even more certain today. The recently published accounts of CityFibre for 2025 show that they consumed c.£900m of cash in that year, before fund-raising. Setting aside their investing activities (network deployment etc.), they got through c.£380m of cash. Their interest bill alone (£284m) was 168% of their *revenues* (£169m). [✂].

In recent times, it has been rumoured that the lenders to CityFibre will be asked to take a substantial write-down on their loans to the business. Press speculation reported that CityFibre "is preparing to ask their lenders to accept a huge write-down on their debts as part of efforts to "*establish a strong, long-term capital structure for the business*." The move is predicted to cost lenders up to £2bn."[1] [✂]. It's debt liabilities of c.£4bn are approximately 23 times its revenues: this is [✂].

Substantial, by contrast, [✂].

It is implausible to suppose that Substantial shareholders would run a process to sell their business without competitive bids from multiple parties. A much more plausible counterfactual is that Substantial will run their business until a competitive process between multiple bidders is possible. [✂].

2. The most important competition is with Openreach

By far the most important competition in the wholesale market is between the Altnets and Openreach.

In the Transaction case, 3.6% of nexfibre-Substantial's potential customers could come from CityFibre (calculated by multiplying the 18% overlap by CityFibre's 20% penetration); 40% of its customers could come from Openreach (calculated by multiplying 100% overlap by Openreach's 40% penetration). So, the competition with Openreach is 10 times more important than competition with CityFibre (relevant though that competition is, as explained below). In the counterfactual case, 0% of CityFibre-Substantial's potential customers could come from nexfibre (because it has no third-party wholesale customers) and 40% could come from Openreach.

We have argued previously that the only relevant customer bases in the wholesale market are third-party ISP customers. BT's retail operations will not use other wholesale networks. As BT's retail customers constitute about half of all Openreach's FTTP lines, it would be fair to discount the opportunity the merging parties have among Openreach's customers by half. So, c.20% of the Altnets' opportunity for customers arises from Openreach, which for nexfibre-Substantial is still 6 times as important as the opportunity to win customers from CityFibre.

So, Openreach is by far the most important competitor in the market, the long-established incumbent, the former monopoly supplier, the one that the new entrant wholesalers are primarily

[1] https://www.ispreview.co.uk/index.php/2026/10/broadband-altnet-cityfibre-reportedly-preps-up-to-2bn-uk-haircut-on-debts.html

focused on competing against, the one they have to be better than in order to persuade ISPs to commit to them as alternative providers.

3. Overlap between the parties reduces competition with Openreach

In competition with Openreach, higher overlap **reduces** competition.

We support the CMA's view product market definition (6.31). However, we submit that the relevant geographic market must include the full extent of the networks of all wholesale providers, particularly including Openreach (6.56). Excluding Openreach's network coverage unduly distorts the CMA's competition analysis.

To illustrate this point, consider two extreme scenarios. If the three Altnets of concern to the CMA overlapped by 100%, then competition to Openreach would be limited to the size of the largest of the three networks, CityFibre's 4.5m premises passed. The others, being 100% overlapping would fall within this. That would result in competition in only 22.5% of Openreach's 20m network footprint. If, on the other hand, the three Altnets overlapped 0%, then competition to Openreach would reach the extent of the **sum** of the three networks, 10m premises passed (CityFibre's 4.5m, Substantial's 3.0m and nextfibre's 2.5m), which covers 50% of Openreach's footprint. So, higher overlap **reduces** competition in the wholesale market, and lower overlap **increases** competition. The same applies in the actual cases of 18% and 32% overlap, though obviously to a smaller degree.

By excluding Openreach's network from the geographic market definition, the CMA misses the most important dynamic of competition in the wholesale market.

We submit that the CMA does not need to speculate about future network deployment, because the Transaction does not cause an SLC in the first instance. However, if the CMA does consider future network deployment, then it should welcome deployment by the Altnets which does not overlap each other, because this will increase the coverage of networks that are competitive to Openreach.

It is, of course, also true that the merged parties do in fact overlap and do and will compete with each other accordingly, because they both need to secure contracts with ISP customers. However, this competition is of secondary importance to competition with Openreach, for the reasons stated in section 2 above. The difference between 18% and 32% overlap between the parties is secondary relative to 100% overlap with Openreach.

4. Overlap is of secondary importance to ISPs buying wholesale services

ISPs are keen to use other wholesale providers than Openreach, having experienced the negative impact of having only one monopoly supplier to choose from in the past. In choosing other wholesale providers, they choose on the basis of scale, service and price before overlap. ISPs need a wholesale provider with large-scale network coverage, because the high fixed costs of integrating with an Altnet wholesale provider need to be defrayed across a large customer base. ISPs must be confident of the service performance of the wholesale provider, otherwise they would not risk the dissatisfaction of their own end-customers by using an Altnet. Wholesale terms, including prices, offered by rivals to Openreach must be at a substantial discount to Openreach's prices. The costs of integrating have to be recovered by large discounts; the costs of migrating customers also have to be recovered by large discounts. Overlaps between networks, arising either under the Transaction or under the counterfactual, are small by comparison with the first three factors. The total alternative coverage versus Openreach is the most beneficial feature of network coverage for ISPs.

5. Rivals to Openreach are price-takers in the wholesale market

To persuade ISP customers to incur the costs and complexity of integrating systems with a new wholesale partner, and then to persuade them to incur the service risk by migrating their end-customers to (or installing new end-customers on) an alternative network to Openreach, an aspiring wholesale Altnet has to offer services at a substantial discount to Openreach's wholesale prices, consisting of lower monthly rental prices, low or zero connection charges and often a significant incentive payment per end-customer paid to incentivise ISP customers to move their end-customers to the alternative network. The level of these discounts is a function of the willingness of ISP customers to make the investments in integration and to incur the service risk of moving customers to the Altnet and is not a function of competition in the overlapping areas between the Altnets. Rivals to Openreach in the wholesale market are price-takers relative to Openreach, even if the pricing conditions flex within their geographical footprints to a small extent.

The CMA is mistaken in saying that Openreach "is a regulated entity that cannot freely compete on key metrics such as price and service." (38) This is not correct or consistent with the facts.

It is factually evident that the success of competition from rival networks has resulted in Openreach proposing very aggressive price competition to stem the losses of customers, despite its being a regulated entity. Their recently proposed discount of c.£9.50 per month for front-book end-customers (new to Openreach), on a base ARPU of c.£[✂] in Openreach is the strongest evidence for this. Ofcom rightly decided that this particular price proposal was anti-competitive, but Ofcom allowed other price reductions by Openreach and Openreach will no doubt formulate other price reductions to stem competition, future ones designed to be acceptable to Ofcom. Indeed, the Openreach CEO has said as much publicly.[2] So, Openreach absolutely is competing on price. Whatever price reductions Openreach puts in place as a result of competition, aspiring wholesale rivals to Openreach will have to match the price reductions in their own commercial terms.

So, it is evident that Openreach pricing, not competition between the Altnets, is by far the predominant relevant dynamic of price competition in the market. Flexing of terms in overlapping areas is desirable for competition but of secondary importance versus Openreach's terms.

Openreach also competes on service and scale. Indeed, Openreach's service standards are the benchmark against which all rival operators have to perform. Just as Altnets are price takers, they are also takers of the service standards: they have to be at least as good, or notably better, than Openreach. Openreach cannot afford to let its service standards drop relative to those provided by competitive Altnet rivals.

6. The Transaction results in a more competitive three-provider market structure

In the Transaction case, ISPs would have a choice between two credible wholesale alternatives to Openreach: the new entrant nexfibre-Substantial, with 5.5m premises passed, and the well-established CityFibre, with 4.5m premises passed. Both of these are large enough scale to be credible competitors. Nexfibre-Substantial has the resources necessary to be a credible new entrant from a price and service perspective, and to build the systems, processes and interfaces necessary to provide wholesale services to the standards required. ISPs will be in no doubt as to which of the two

[2] https://www.ispreview.co.uk/index.php/2026/10/openreachs-ceo-talks-future-fttp-broadband-build-ofcoms-discount-block-and-competition.html

smaller new entrant wholesalers to integrate with, Substantial or nexfibre, because the combination will offer the largest alternative to Openreach.

It has been found in practice that the two second largest Altnets in the UK after CityFibre (4.6m premises passed), namely the parties to the Transaction, Substantial (c.3m premises passed) and nexfibre (c.2.5m premises passed), have not made progress in the wholesale market with real third-party ISP customers. This, we suggest, is for three reasons. First, their network coverages are both too small to result in a commitment by ISPs and secondly, related to this, neither is clearly the second alternative after CityFibre. Third, they have come to the wholesale market too recently.

The CMA may question this view on the basis that [✂]. [✂].

The proposed transaction results in two clear alternatives to Openreach of similar size: CityFibre (4.6m) and nexfibre-Substantial (5.5m). By contrast, the counterfactual results in only one viable alternative to Openreach, three times as large as the other: CityFibre-Substantial (7.6m) and nexfibre (2.5m). It is not likely, in our view, that nexfibre can economically grow to a scale to rival the two leading wholesale competitors when competition is as concentrated as this two-player outcome. So, preventing the Transaction would condemn the wholesale market to a two-competitor market for the indefinite future, when a credible three-competitor market structure would result from the Transaction.

As stated above, in our view, the most likely counterfactual is not the CMA's but the continued independence of Substantial and a turn-round of its performance until a competitive process for sale can be accomplished. In these circumstances, neither Substantial nor nexfibre will make significant progress in the wholesale market in coming years for the same reasons set out above.

For Grain Connect
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