

13 September 2011

Bob Warner
Chair
Communications Consumer Panel
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA

COLETTE BOWE
Chairman

Direct line: 020 7981 3605

Colette.Bowe@ofcom.org.uk

Dear Bob,

Thank you for your letter of 20 July enclosing an Advice Note from the Panel on Mobile coverage and the 4G spectrum auction.

As I am sure you are aware, we share the Panel's concerns about the need for better mobile coverage in rural areas, and appreciate the importance that citizens and consumers, including small businesses, attach to mobile coverage. We also recognise the potential impact that better mobile coverage could have on growth of the rural economy, including farms and farming-related businesses. We tend to concur with your view that further mobile voice coverage is unlikely to be provided by the market alone, and that intervention is likely to be necessary if mobile coverage is to be extended beyond the current 2G footprint, whether that be through regulation, or the funding of coverage in commercially unattractive areas.

As your Note says, extending mobile coverage beyond today's 2G footprint will almost certainly require the building of a substantial number of additional mobile base stations (mobile masts) in rural areas, at a material cost – likely some hundreds of millions of pounds. We have over the summer been working with technical experts better to understand the number of additional base stations likely to be required, and at what cost, to achieve various levels of coverage beyond today's 2G coverage, up to, including, and beyond 98% UK population coverage. This work is considering the costs not only of delivering additional mobile voice coverage, but also of providing 4G mobile broadband services to the same locations. This work is also looking not at the UK as a whole, but rather at a number of sample areas in the more rural parts of the UK, and should therefore give us a better understanding of the likely costs of achieving various levels of coverage in each nation and region, as well as UK-wide. The team would be very happy to share the results of this work with the Panel once finalised.

As your Note recognises, there are a number of possible mechanisms by which the costs of extending mobile coverage could be met, including reductions in auction receipts, reductions in annual licence fees, and direct funding, possibly through the hypothecation of auction and/or licence fee receipts. Let me reassure you that we are considering all of these. So far as the last of these is concerned however, there is a legal difficulty – Ofcom does not have the power to retain any part of auction or licence fee receipts; we are required by law to remit them entirely to the consolidated fund (in effect the Treasury). This could of course be changed if the Government so wished, but it is not within Ofcom's power alone to make this change.

This then brings me to a wider point. The spending of hundreds of millions of pounds of what would otherwise be receipts for the public purse – the setting aside of significant sums as you put it – is a matter that clearly should be, and is, of interest and concern to the Government. Hence, whilst Ofcom does have the power to impose coverage obligations without reference to Government, nevertheless it is only right that we engage with the Government to confirm that they are content for us to do so. This we are doing.

Hence in summary, whilst we agree with you that something needs to be done to improve mobile coverage in rural areas, we believe such action needs to be proportionate and implemented in the most cost effective and efficient manner possible, not least given the current financial climate. This we are working to achieve.

Your Note also raises the issue of national roaming. As you rightly point out, if only one network is funded to provide mobile coverage in areas that do not currently have 2G coverage it seems unlikely that others would follow, and therefore without national roaming this coverage would be unlikely to be available to the customers of all mobile networks. We therefore are indeed giving careful consideration to the need for some form of roaming obligation on any network funded to provide coverage beyond today's 2G coverage.

Once again, thank you for your valuable contribution to the discussion of these issues. The more detailed comments in the Panel's response to the consultation on the award of the 800MHz and 2.6GHz spectrum bands are being considered by the team. I am sure they will give you feedback in due course.

Yours sincerely
Colin

cc. Ed Richards, Claudio Pollack, H Nwana, Graham Louth, David Hendon