

# EE Parliamentary briefing: Annual Licence Fees



## Background

Mobile Network Operators (MNOs) pay 'annual licence fees' (ALFs) to Government for use of airwaves to provide voice, text and data services. ALFs are overseen by DCMS and set by Ofcom. In 2013, MNOs collectively paid £65 million in ALFs for the use of 900 and 1800 MHz airwaves, used for 2G, 3G and 4G services. After the previous Government directed Ofcom to review ALFs to ensure they reflect "full market value", Ofcom recommended a fourfold increase to £309 million per year. Since then MNOs have reached an agreement with DCMS committing them to meet a costly and previously unplanned 90% geographic coverage obligation. As part of this deal, MNOs had a clear expectation that Ofcom would reduce proposed ALFs to compensate MNOs for the incremental costs of extending coverage. Such increases in ALFs, particularly without any compensation for meeting a public policy objective, would have a profound impact on all MNOs, with negative implications for economic growth, jobs and investment in mobile coverage, and may lead to higher consumer prices.

## The proposed increases in ALFs are excessive and risk undermining investment in the UK

- The increase in 1800 MHz licence fees (a trebling on current fees) is unjustifiable. Ofcom's own cost model suggest that ALFs for EE should be no higher than £37 million per year, compared to Ofcom's proposed fee of £84 million; the dearest in Europe
- The proposed fees, coupled with Ofcom's failure to compensate EE for the costs of meeting the new coverage obligation will have negative consequences for future investment levels; EE has been forced to scale back plans to extend 4G coverage as it awaits final proposals

## There remain major concerns about Ofcom's methodology in reaching their figures

EE has identified the following flaws in Ofcom's latest consultation on ALFs valuation:

- Ofcom's estimate of 'lump sum values' for the 1800MHz band is based entirely on a very small selection of unreliable benchmarks which Ofcom has acknowledged are likely to overstate the true market value of 1800 MHz spectrum. Ofcom's latest cost model, which Ofcom has yet to take into account, are more reliable and produce significantly lower ALFs.
- Ofcom has adopted a narrow and ultimately flawed approach to assessing how to take account of the costs of meeting the new coverage obligation. Ofcom options available to it which would better meet its objectives (e.g. phase-in revised ALFs over a longer period).

## Digital infrastructure is critical to the UK economy

- Ofcom estimates that 4G will be worth £20 billion to the UK economy in the next ten years
- Capital Economics found 4G would increase UK GDP by 0.5% once fully rolled out
- SQW has found that every £1 invested in rural connectivity brings £20 to the economy
- EE has invested more than £16 billion in spectrum and infrastructure since 2000
- MNOs generate a contribution of £30 billion to the UK economy per year

## About EE

EE is one of the largest and most advanced digital communications companies in Britain, delivering mobile and fixed communications services to consumers, businesses, government and the wholesale market. EE runs the UK's biggest, fastest and most reliable mobile network, pioneering the UK's first superfast 4G mobile service in October 2012 and was the first European operator to surpass the 10million 4G customer landmark. EE's 2G coverage today reaches 99% of the UK population, it's 3G reaches 98% and it's 4G reaches more than 90%.