

8 May 2002

Laurence Green
Radiocommunications Agency
Wyndham House
189 Marsh Wall
London
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Dear Laurence,

Centrica welcomes the publication of the Independent Review of Spectrum Management, conducted by Professor Martin Cave and published on 6 March 2002.

We believe this review into spectrum management has come at a critical time for the communications industry. The recommendations proposed in the review will be vital for ensuring the most economically efficient use of radio spectrum is implemented in the UK to cover the next ten to fifteen year period. We agree that market forces should play an increasing role in future spectrum management but suggest that regulation has a continued role in addressing certain policy objectives which are considered further below.

We broadly support the use of auctions for allocating spectrum for commercial use. However, Centrica is concerned that the move away from the current administrative system for spectrum allocation removes essential public policy aspects of promoting particular radio-based services. We suggest that further consideration should be given to how the public policy aspect of spectrum management could be maintained in particular areas whilst developing the market-based approach for the generality of applications. Additionally, under the market based approach a direct market valuation of spectrum will necessarily occur with licences awarded to the highest bidders. It is therefore possible that spectrum could be dominated by the largest stakeholders that can pay the most which we suggest will require regulatory oversight of the auction and allocation process.

We welcome the proposal to introduce spectrum trading once the necessary European Framework Directive is in place. This dynamic approach encourages efficient use of spectrum and real opportunities for innovation. However, there are a number of key issues that will require further detailed consideration to ensure that spectrum trading realises its true market potential. The ability for licensees to divide and partition their licences by frequency and geography for subsequent sale will need to be carefully managed, as will the nature of the property rights and interference management regime that is created to support this process.

Centrica believes that spectrum trading could potentially enable one or more stakeholders to gain and abuse a dominant position in the spectrum market or in a downstream market where spectrum is a key input. Although the review recognises this potential, we suggest that there must be constant vigilance to ensure that competition is not distorted by spectrum trading. We strongly suggest that

Competition Act powers are used in relation to spectrum trading as are used in other dynamic markets requiring key inputs.

We support the proposal that a form of administrative charge should be set against spectrum allocated to public service broadcasters. This would focus attention on the actual spectrum required to deliver public service outputs and provide a strong incentive to provide services via the most economically efficient channel. We strongly suggest that all public service broadcasters should have greater flexibility over the type of transmissions made over spectrum licensed to them and greater scope to lease spectrum to other users where it is not fully utilised for broadcasting services, in order to realise maximum efficiency and value. In the longer term we believe that all public service broadcasters should be encouraged to trade spectrum as this market mechanism develops.

Centrica believes that the review has carried out a thorough analysis of the current spectrum management process in the UK. There is an opportunity for the creation of a dynamic market for spectrum allocation and secondary trading, which must be balanced with appropriate ex ante and ex post regulatory measures as and when required. We look forward to the formal Government response to the review later this summer.

Please do not hesitate to contact me should you require any additional information or clarification of any matter.

Yours sincerely,

Nick Turley
Centrica
Group Regulatory Affairs

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