

Charles Jenne  
Director of Policy  
Riverside House 2A  
Southwark Bridge Road  
London  
SE1 9HA

16 May 2016

Dear Charles,

### Ofcom's proposals to amend the Wireless Telegraphy Regulations 2015

EE refers to Ofcom's consultation dated 13 April 2016 on proposals to amend the Wireless Telegraphy Regulations 2015 (the "Regulations") to reflect the Office for National Statistic's ("ONS") changes to the Consumer Price Index ("CPI") All Items series.

Whilst EE does not have any formal consultation response to provide to you in relation to these proposals, we do note that Ofcom's consultation proposal to reflect the change to the ONS' methodology for calculating CPI as from that at the date of Ofcom's ALF Statement, has prompted EE to consider another potentially relevant change affecting the assumptions used by Ofcom to calculate ALFs in the ALF Statement.

In particular, we refer to HM Treasury's planned changes to UK corporate tax rates which were set out in the March 2016 Budget. In the ALF Statement, Ofcom uses an average corporate tax rate assumption to calculate the Tax Adjustment Factor ("TAF") and the discount rate, which are in turn used to convert lump sum values of 900 and 1800 MHz spectrum into ALFs. In Ofcom's ALF Statement, Ofcom assumed an average UK corporate tax rate of 18.3%<sup>1</sup> for the purposes of calculating ALFs, which Ofcom concluded "*represents the best estimate of what the average tax rate will be over the next 20*



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<sup>1</sup> Ofcom, ALF Statement, September 2015, Para 6.129

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*years*<sup>2</sup>. This assumption was based on HM Treasury's announcement in its Summer 2015 Budget that it planned to reduce UK corporate tax rates to 19% from April 2017 and 18% from April 2020.<sup>3</sup>

Since the publication of Ofcom's ALF Statement, HM Treasury has announced, in the March 2016 Budget, that it plans to reduce the UK corporate tax rate further to 17% from April 2020. EE notes that if this latest planned reduction was factored into Ofcom's average UK corporate tax rate, it would reduce the average rate from 18.3% to 17.5%. This would in turn lower the Tax Adjustment Factor (TAF) that is used to derive ALFs (from 1.064 to 1.060). At the same time, adopting a lower average corporate tax rate would lead to a small increase in the post-tax, real WACC (used to derive the discount rate), however it would leave the discount rate (1.8%) unchanged, when rounded to one decimal place.

EE estimates that the net effect of the change to the TAF, which would result from adopting the latest information now available from HM Treasury regarding future corporation tax, would be to reduce ALFs by a relatively small amount of approximately 0.3%. This is equivalent to a reduction of approximately £230k each year in EE's ALF payments for 1800 MHz spectrum. We invite Ofcom to consider whether it would be appropriate to make this adjustment to its assumptions in light of HM Treasury's latest announcement at the same time as making the proposed adjustment to CPI to reflect the ONS' latest published methodology for calculating this.



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Yours Sincerely,

A handwritten signature in black ink, appearing to read "Matthew McDermott".

Matthew McDermott  
Regulatory Economist

<sup>2</sup> Ofcom, ALF Statement, September 2015, Footnote 245

<sup>3</sup> Ofcom, ALF Statement, September 2015, Para 6.129

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