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16 November 1990

Dear David

IBA TRANSMISSION PRIVATISATION : ECONOMIC REGULATION

Thank you for your letter of 7 November about the economic regulation of National Transcommunications Ltd (NTL).

I am grateful to you for agreeing that there should be scope for price regulation of the rental of site and mast space for Channel 5. Whilst it would in theory have been preferable to have agreed a price formula for Channel 5 rentals in advance, the uncertainties over both the timing and coverage of the channel make that impracticable. I thus agree with your proposal to allow the Director General of Telecommunications to impose a price cap if he considers it necessary in the circumstances at that time.

Turning to the regulatory formula for Channels 3 and 4 and S4C, I agree that there should be tough efficiency targets and I welcome a negative "X" to ensure that NTL's customers get a better deal over the course of the regulatory period. I also understand your concern that the total sum Channels 3 and 4 and S4C pay to NTL and the ITC next year should be no more in real terms than they pay to the IBA now. I note that your calculations are based on no real growth in regulatory costs between the IBA and the ITC. We must be careful however not to allow unnecessary costs of the ITC to drive down P_0 and thus reduce the viability and attractiveness of NTL.



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Provided that you are satisfied on this last point I am content to endorse a P₀ of £61 million and an X of 1. These figures will be incorporated into the draft Telecommunications Act licence which will go out to statutory consultation on Friday.

I am copying this letter to the Prime Minister, other Members of MISC 128 and to Sir Bryan Carsberg.

Yours ever

Peter



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