

12th January 2006

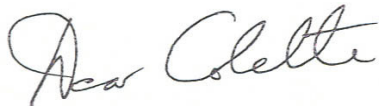
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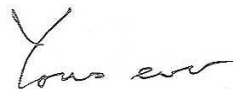


I understand that you and Roger Darlington recently met with the team which is looking at how we should evaluate outcomes of the Telecoms Review. The Board discussed this issue at its meeting on 13 December 2005, and I wanted to let you know the Board's position on these issues.

I understand that your position was that in general wherever there Ofcom defines a metric, there should be a target. The Board understands the value of targets in generating credibility and transparency in the evaluation process. We believe that it is appropriate to measure against targets relating to delivery to the letter of the undertakings, as these are clearly defined requirements which BT has to meet.

However, on the remaining three areas of measurement that will be undertaken – delivery to the spirit of the undertakings, intermediate industry outcomes and business and consumer outcomes – we think that in general targets are not appropriate. This is for both philosophical and practical reasons. From a philosophical point of view, the Board does not believe that it should set targets for variables that are subject to multiple influences that are not really forecast with any accuracy. To do so would not only be impractical, but the experience from a number of other areas of public policy is that setting targets of this kind can have unintended and undesirable consequences. For example, we want to move to a situation where prices are determined not by regulation but by underlying costs – over which we obviously have no control. Practically, it is extremely difficult to predict outcomes in fast-moving telecommunications markets even two years ahead, let alone five or ten. Incorrect setting of such targets could even result in distortional effects on the market.

I trust that this helps the Consumer Panel to understand the Board's thinking, even if the Panel disagrees with it. I would be pleased to meet with you and the Panel at a convenient time to discuss this further if you feel this would be useful.



David Currie
Chairman