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**REDACTED VERSION FOR PUBLICATION**

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17<sup>th</sup> January 2018

**Absolute Radio – AM Network Proposals**

Dear Jon,

1. I am writing on behalf of Absolute Radio in relation to proposed changes to the AM National Network transmission system (the “**AM Network**”) associated with national AM licence (AN002) (the “**AM Licence**”).
2. As envisaged prior to renewal, Absolute Radio is finding it necessary to seek Ofcom agreement to make changes to the technical arrangements of the AM Network. This letter seeks to wrap together all current aspects of this proposal, including:
  - a. the finance information which was requested by Ofcom in December 2017 to assist in determining whether it is ‘reasonably practicable’ to continue to provide the current c. 90% population coverage;
  - b. the Absolute Radio Step 1 proposal, to reduce the power at 5 major AM sites by 3dB (first proposed to Ofcom in September 2017) (“**Step 1**”); and
  - c. the Absolute Radio Step 2 proposal to close 12 small AM sites, and thereafter to operate a 20 site network (“**Step 2**”).
3. Absolute would appreciate Ofcom reaching a decision on this matter at their earliest convenience and ideally no later than mid-February 2018 to allow time to communicate, as necessary, with listeners and to conclude appropriate legal agreements with Arqiva.





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## Background

4. The AM Licence contains an obligation on Absolute Radio, as the Licensee, to **'secure that the Licensed Service serves so much of the licenced area as is for the time being reasonably practicable'** (the "**Licence Provision**"). Absolute Radio strongly believes that continuing to provide 90% population coverage is no longer 'reasonably practicable'. In fact, if Absolute Radio was required to continue to provide the current coverage it would be likely to result in Absolute Radio having to close down the AM Network.
5. The Licence Provision uses the wording 'reasonably practicable' rather than 'physically possible', therefore the Licence Provision is clearly intended to provide flexibility around the extent of the licenced area that is served at any point in time.
6. In addition, the licence provision includes the phrase 'as is for the time being' indicating the reasonably practicable requirement may change over time. Absolute Radio would argue that in all the circumstances, continuing to serve 90% of the population is no longer reasonably practicable.
7. Absolute Radio is, therefore, proposing to rely on the flexibility in the Licence Provision to modestly reduce coverage of the licenced area served, by implementing Step 1 and Step 2, providing coverage in excess of 85% of population. This would enable Absolute Radio to continue serving so much of the licenced area as is for the time being reasonably practicable, in compliance with its Licensee obligations. As such, the purpose of this Proposal is to secure Ofcom's approval for Absolute Radio to implement Step 1 and Step 2.
8. Please note, as Ofcom has only requested that Absolute Radio submits financial information to aid its request, we have not included any form of legal argument relating to the meaning of 'reasonably practicable'. If Ofcom wishes Absolute Radio to submit a legal argument as part of its proposal, then please notify Absolute Radio as such.

## Radio Landscape

9. Absolute Radio is unique in the UK in operating a music based service on national AM, indeed possibly now unique in Western Europe! The original licence was written over 25 years ago when AM and FM were the only listening choices for consumers. The radio listening environment has expanded dramatically since that time with growth of DAB, online and Apps as well as further expansion of FM. AM is always at a considerable disadvantage for music listening as AM audio quality falls well short of all alternative platforms. As a result, AM is no longer front and centre of listener interest and while it continues to offer a valuable service to some listeners, the world of radio listening is unrecognisable compared to when the provisions of the original AM Licence were drafted.

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10. In setting the licence fee for renewal of the Absolute AM Licence, Ofcom recognised the greatly reduced value of the licence in 2017, compared to the value when originally awarded in 1992. Ofcom rightly saw fit to re-interpret the fee arrangements and Absolute Radio would argue that the flexibility inherent in the Licence obligation can be met with a lower level of coverage than has been the case in recent years.
11. The Absolute Radio proposal to modestly scale-down the AM transmission system is driven by the need to avoid any substantial increase in AM transmission costs, as such a substantial increase in cost would result in the AM Network becoming commercially unviable. This is consequence of the industry reaching a point where audiences for music content on AM have declined substantially and continue to decline. The UK as a whole is rapidly approaching the 50% digital listening threshold. When this 50% threshold is reached, the Government will review arrangements for some form of Analogue Switch Off (ASO), with AM likely to lead in such a programme. (Current legislative provisions already allow Ofcom to terminate a licence on 2 years notice to deliver ASO.)
12. In the Commercial Radio Deregulation Consultation: Government Response published on 18 December 2017 Government recognised that the radio landscape is in a significant period of change:
  - a. Para 78 stated: *As set out in the consultation, we believe that there will be a need for a significant degree of flexibility in terms of renewals and extensions for analogue commercial radio licenses. ...*
  - b. Question 17: *We would welcome views on possible impacts and benefits of allowing more flexibility for stations to reduce expensive analogue broadcasting...*
  - c. In response, para 99 stated: *Over the coming years we expect to see analogue listening decline in favour of digital and internet-based audio ... service providers. With the BBC's programme of switching off BBC local services on MW now underway, this is likely to affect AM services carried on MW first. We believe there is a strong rationale for allowing commercial stations to hand back analogue licenses in order to save costs on transmission and without the fear of the licence being re-advertised.*
13. It is clear from the above, that Absolute Radio is not alone in seeing a need to scale back AM transmitters to contain transmission costs, with Government and the BBC seeing the benefit of flexibility to reduce costs of analogue, in particular, AM broadcasting.
14. The BBC announcement in July 2017 that they would close 13 of their c. 50 local AM transmitters made clear they were doing so because these sites would no longer provide value for money in the longer term. These sites are slated for closure in January 2018.

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15. Absolute Radio, as a national AM licensee, is in a more complex position than local operators (BBC or Commercial), as it has a large number of AM transmitters in the AM Network. (Local AM licences rarely have more than one AM transmitter to serve the entire licensed area.) If Government considers it appropriate for local licensees to hand back licences without penalty to save costs on transmission, it is not unreasonable to propose an alternative solution for national licensees in the form of a modest reduction of network coverage.

**Balancing the interests of audience and the licensee as ASO approaches**

16. Much of the current Absolute Radio AM infrastructure is now well over 25 years old. It was partly refurbished when re-purposed from its previous existence as the BBC Radio 3 AM network following the Radio Authority licence award to Virgin Radio in 1992. Virgin subsequently launched in 1993. The current infrastructure is therefore a minimum of 25 years old, with much of it far older.
17. At the same time, the current licence term for the AM Network runs only until April 2022, with no certainty that either the licence would be renewed, or that Absolute Radio would wish to continue to operate on AM.
18. In an attempt to continue serving its valuable AM listeners, Absolute Radio has had extended discussions with Arqiva about maintaining the AM Network through the remainder of the licence term until April 2022. The key outcome of the initial negotiation with Arqiva was that annual operating costs would need to increase by at least [xx]% to continue with the current AM Network arrangements. Plus, extensive capital expenditure would be required. Taken together this would be equivalent to substantially upgrading the network. Although Absolute Radio has now concluded a way forward with Arqiva [xx] on [xx] pricing, this is wholly dependent on Bauer implementing Step 1 and Step 2.
19. For Absolute Radio to continue to serve 90% of the population within the licenced area, it would have to make a substantial and long-term investment in new broadcast infrastructure. Such infrastructure generally has a life of around 25 years or more, but in this case may only be of value for 4 years.
20. As is detailed below, the cost to continue to serve 90% population will be of the order of £[xx]m pa [xx], while the cost of implementing Step 1 and Step 2 to establish the scaled-down network reaching c. 85% of population will be c £[xx] pa [xx]. Absolute Radio estimates that around 19k listeners will lose the AM service as a result of the proposed changes. The difference in cost to retain the 19k listeners is, therefore, c. £[xx]m pa, which is completely disproportionate to the commercial value of retaining these listeners.

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21. As such, Absolute Radio no longer believes that it is 'reasonably practicable' to serve 90% population. Absolute Radio feels strongly that any business, acting reasonably, would reach an informed decision that the financial risk was greatly disproportionate to any benefit.

### **Absolute Radio AM Finances**

22. Following the September 17 Step 1 request, Ofcom asked in December for insight to the finances of the AM segment of the Absolute Radio business. [xx] as follows:

- a. **Network Scale Down:** The proposed renewal of the existing radio agreement with Arqiva (as defined in the 2008 Competition Commission Undertakings) at nominally [xx]. This pricing is conditional on completing the Step 1 and Step 2 changes to the AM Network as set out in this letter before the transmission contract renewal date of April 2018.
- b. **Network Upgrade:** Using illustrative pricing in relation to new transmission agreements (as defined in the 2008 Competition Commission Undertakings) if Absolute Radio were to upgrade or replace the network with a view to further long-term (say 25 years) of operation

23. [xx]

24. The proposed **Network Scale Down** illustration shows that the AM segment of the business can remain just modestly profitable in the next few years, but with profit margin falling as AM audiences decline further. [xx] On this basis, the AM segment of the business will fall into loss before the end of the current licence term.

25. In contrast, the **Network Upgrade** illustration shows the AM segment of the business will fall into loss immediately, with the scale of losses increasing throughout the current term of the licence and seriously damaging the profitability of the Absolute Radio business as a whole.

26. As it is clear that the Network Upgrade would be significantly detrimental to Absolute Radio's business, Absolute Radio cannot, acting reasonably and practically, continue to serve 90% of population.

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### **Audience**

27. If Absolute Radio is unable to implement Step 1 and Step 2, this will be likely to have the terminal effect of closing the entire AM Network from April 2018 or some later date. Ofcom has previously confirmed that Absolute Radio is entitled to close the AM Network and hand back the AM Licence without penalty. However, such a move would instantly and permanently disenfranchise all current Absolute Radio AM listeners. Absolute Radio would therefore try to avoid this step.
28. Absolute Radio greatly values the loyalty of its audience on all platforms. The full closure of the AM Network is not necessary. With some very modest changes to the AM Network, Absolute Radio can ensure that the vast majority of the current AM audience can continue to be served on AM for the remainder of the licence term, while being actively encouraged to migrate to digital platforms.
29. The Reach of Absolute Radio is 2.46m adults (RAJAR W3, 2017). Absolute Radio estimates that the implementation of Step 1 and Step 2 is likely to result in a loss of around [xx]k adults or c. 1% of current Absolute Radio listeners. The closure of the AM Network would result in a loss of c. 20% of current Absolute Radio listeners. While Absolute Radio will continue to invest considerable efforts in migrating the AM audience to digital listening, the planned reduction in transmission is necessary to maintain the commercial viability of the AM Network while continuing to serve the vast majority of the remaining AM listeners.
30. [xx]
31. It is clear from the above that it is in the best interests of the majority of listeners and consumers for Absolute Radio to implement Step 1 and Step 2, rather than close the entire AM Network. Implementing Step 1 and Step 2 would affect just 1% of Absolute listeners which is a significantly less damaging to the interests of listeners than the c. 20% of Absolute Radio listeners that would be disenfranchised by the AM Network closure.

### **Proposed Network Changes**

32. The proposed changes to the network are in two steps, with Step 1 being implemented as soon as possible following Ofcom approval and Step 2 being implemented from May 2018. Ideally, early Ofcom approval will be forthcoming for both steps to allow maximum opportunity for Absolute Radio to communicate the changes to audience and conclude the relevant commercial arrangements with Arqiva.

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**Step 1**

33. Absolute Radio sought approval for the Step 1 change in early September 2017 and for completeness the proposal is repeated here.
34. Step 1 calls for the transmission power (emrp) at each of the five largest sites in the network to be reduced by 3dB. This will significantly reduce the electricity consumption and in turn the cost of operating the network, while having only a very modest impact on coverage.
35. The power of the large AM transmitters was established over 25 years ago to protect (now much reduced) night-time audiences, from incoming interference that has largely disappeared. The Step 1 proposal adjusts the transmitter powers to reflect the radio landscape in 2018, significantly reducing electricity consumption, saving energy and reducing costs.
36. Arqiva estimate that the current network reaches c. 90.5% of the UK population. The effect of the 3dB reduction at the 5 largest sites would reduce net coverage by just 1.7 percentage points to c. 88.8% of UK population. Absolute Radio expects this change to be largely unnoticed by the audience. [xx]
37. The five largest sites requiring the 3dB reduction (and their associated key coverage areas) are:
- a. Brookmans Park - London, Hertfordshire, Essex, South Bedfordshire
  - b. Droitwich - West Midlands
  - c. Moorside Edge - North West and Yorkshire
  - d. Westerglen - Central Scotland
  - e. Washford - South Wales, Avon, Somerset
38. [xx]
39. [xx]

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40. Ofcom approval is now sought for Step 1, to vary the Absolute AM licence from an early date to allow the 3dB power reduction at these sites to be implemented.

## Step 2

41. Step 2 has been developed to keep the cost base of operating the AM Network proportionate to the commercial value which it returns while seeking to minimise the impact on the limited proportion of Absolute listeners still using the AM Network. The goal is, in effect, to try and do what is 'reasonably practicable' to use the language in the licence, to maintain the majority of current Absolute AM coverage on a commercially viable basis for the remaining term of the licence.

42. Many of the small AM filler transmitters in the Absolute Radio AM national network (many of which were previously classed as non-mandatory in the licence) are no longer commercially viable for a music based AM radio service. The carefully developed Step 2 proposal to close 12 small transmitters, while investing a modest level of capex in the network, will release spares to enhance the reliability of the remaining transmitters and will in turn improve the availability, consistency and quality of the service to listeners

43. In developing this plan, Absolute Radio established the five criteria (a. to e. below) against which Arqiva were asked to propose the site closures. Against these criteria, the combined effect of Step 1 and Step 2 is summarised in the following table:

	Number of Sites	Population Coverage	Net % of UK Adults 15+
Current Network	32	47,133,832	90.5%
Step 1: 5 sites at -3dB	32	46,196,364	88.7%
Step 2: 20 Site Network with 5 sites at -3dB	20	44,474,382	85.4%

*(The small gains in AM coverage have been disregarded.)*

44. The Step 2 Criteria and how the combined scale-down plan reflects them:

- a. **Broadly maximising the total continuing coverage of the Absolute Radio AM network for the licence term to April 2022**
  - i. This has been achieved by retaining coverage to over 85% of the UK population.

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- ii. The 12 sites proposed for closure are (with the exception Manningtree which will be retained) the 12 sites delivering the lowest incremental audience in the network.
  - iii. The proposed scaled-down network reaching 85% of UK population, will still exceed the coverage of the most recently awarded national licence, (the second national digital licence awarded to SDL) which currently qualifies as a national service with less than 80% coverage of UK population.
- b. **Where reasonable, maintaining 'contiguous' coverage across the primary road network in England**
  - i. As illustrated on Map [X], the 20 site network successfully maintains existing contiguous coverage between the main English population centres.
- c. **Taking account of the technical status of sites, including their reliability and the availability of spares for them in order to minimise further re-engineering costs**
  - i. The least reliable and 'end of life' sites are being closed, boosting the spares holding to support the continuing sites.
  - ii. Capex of £[xx] will upgrade key sites and release further spares in support of other sites.
- d. **Looking to the overlay of D1 network coverage to allow disenfranchised listeners to be pointed to D1 DAB as an alternative platform**
  - i. The vast majority of population which would no longer be covered by AM, will have coverage of Absolute on Digital One.
  - ii. Of the 'potential' c. 2.66m adults losing AM coverage, c 2.50m are within the coverage of Digital One and will have the option to listen on DAB at home and in-car.
- e. **Take account of published BBC site closures if/where these are shared with the Absolute AM network**
  - i. Absolute Radio shares 4 sites with the list of 13 BBC sites being closed. Of these 4 sites, Absolute will close 3 and retain the site at Brighton.

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45. The 12 sites proposed for closure are:

- a. Plymouth MF
- b. Redmoss
- c. Hull MF
- d. Torbay MF
- e. Redruth MF
- f. Hoo
- g. Greenside Scalp
- h. Wallasey
- i. Pirbright (Guildford)
- j. Chesterton Fen
- k. Rodbourne Sewage (Swindon)
- l. Sheffield MF

46. Agreement is now sought from Ofcom for implementation of Step 2 from May 2018, to close 12 of the smaller transmitters leaving 20 transmitters in the AM Network.

47. All of the technical analysis above relates to 'coverage' and 'potential' rather than 'actual' listeners on the AM network.

### Summary

48. Absolute Radio strongly believes that an investment of the order of £[xx]m, in a network that may only be operational for another 4 years, is not a 'reasonably practicable' means of continuing to serve the 1% of Absolute Radio listeners that would be affected by implementing Step 1 and Step 2. It is neither proportionate nor commercially viable.

49. Further, given there will most likely be terminal consequences for the AM Network if Absolute Radio is unable to implement Step 1 and Step 2, Absolute Radio believes the most reasonable and practical solution in these circumstances is to modestly scale down the AM Network and continue to serve the vast majority of the AM audience.

50. This proposal comes at a time when the Government is already consulting on a wider programme of deregulation and encouraging flexibility in licencing, in light of the changes in audience behaviour, largely as a result of digital developments. Digital Listening is expected to shortly cross the 50% threshold from the current level of 48.8%, at which point the Government will then consider arrangements for some form of ASO.

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51. Absolute Radio has invested, and will continue to invest, considerable efforts in migrating the Absolute Radio audience to digital listening ahead of ASO. Absolute Radio understands the importance of these efforts to ensure a minimal number of AM listeners are affected when ASO takes place. The premature closure of the entire AM Network will, however, arguably nullify some of these efforts as the c. 20% of Absolute Radio listeners would likely be unnecessarily affected years before the planned ASO.
52. Step 1 and Step 2 ensure the viability of the scaled-down AM Network for the licence term and provides continuity of the Absolute Radio AM service to the vast majority of the remaining AM audience

In all circumstances, Absolute Radio considers the proposed Step 1 and Step 2 changes taken together, as being entirely consistent with the Licence Provision to serve as much of the licensed area as is for the time being reasonably practicable.

We believe this letter now provides Ofcom with all the information required. We have sought to demonstrate the significant positive impacts of the scale-down proposals on the Absolute Radio business and the very limited impact on listeners. We hope this puts Ofcom in a position to be able to make a judgement that given the current and emerging market conditions, the Absolute proposal is consistent with the Licence Provision to 'secure that the Licensed Service serves so much of the licenced area as is for the time being reasonably practicable'.

[xx]

Yours sincerely

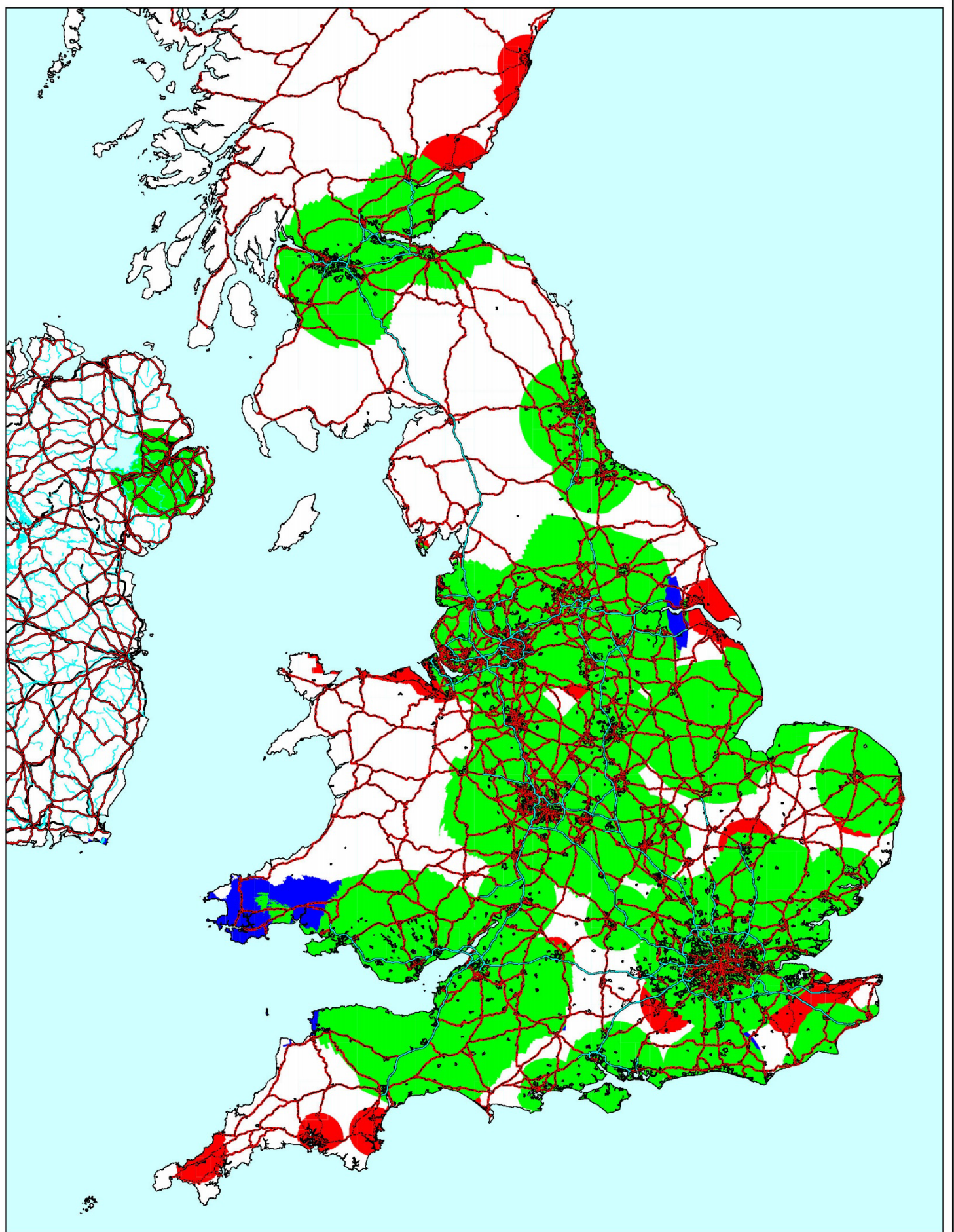
[xx]

Dee Ford

**Group Managing Director, Radio**

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#### Coverage Comparison

- Coverage retained
- Coverage gain
- Coverage loss

Comparison\_Absolute Radio MF current net\_big5@-3dBvs\_proposed twenty site network

Coverage Comparison

Filename : Absolute\_current\_network\_with\_big\_5\_at\_-3dB\_vs\_Twenty\_site\_network.fs

This plot shows predicted values; it does not guarantee that the indicated values will be achieved in practice.  
Contains Ordnance Survey data © Crown copyright and database right 2011

Date Plotted : 7 Sep 2017  
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