



12 January 2009

Mr Will Hayter
Competition Group
OFCOM
Riverside House
2A Southwark Bridge Rd.
London
SE1 9HA

Dear Will

Re: Pay TV Second Consultation

On behalf of Discovery Networks UK (DNUK) I would like to share our concerns regarding OFCOM's proposal to offer premium channels as a stand-alone package alongside the basic/premium bundle.

As you are aware, DNUK distributes 12 channels in the UK, including its flagship channels Discovery Channel, Discovery Real Time and Animal Planet, on a wide range of platforms including DTH and cable. In addition, DNUK will soon launch a channel on Freeview. DNUK's revenues are generated from carriage fees received from channel retailers for the right to package and sell these channels to consumers and from the advertising space sold on these channels.

It would seem that offering premium packages as a standalone would have essentially the same deleterious affect on the pay-TV market as removal of the buy-through mechanism. As stated in DNUK's response to the Pay TV Market Review, buy-through is extremely important for pay-TV channels, retailers and customers, enabling basic channel providers to secure vital economies of scale and wider distribution in an extremely competitive UK market. Wider distribution in turn generates more revenue, which is re-invested in programming, marketing and a range of other services. With the constant downward pressure on carriage fees and, in the current economic climate, pressure on advertising income, the benefits of the buy-through mechanism to pay-tv channels becomes even more critical.

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In addition, because of the high acquisition costs associated with premium programming, the price point for stand-alone premium packages would need to be sufficiently high to cover not only those traditional costs but the potential revenue shortfall to retailers that would most assuredly occur when consumers decrease their purchases of other programme packages. This would obviously impact the subscription and advertising revenues of the pay TV channels in the basic packages, resulting in a substantial decrease in market investment. Indeed, OFCOM itself has recognized repeatedly the importance of bundling efficiencies in the provision of retail services.

It would also seem that providing SKY the ability to package premium-only content separately, also gives it even more market power in its ability to drive down carriage fees to other pay-TV channels in light of the new distribution model that would likely emerge. This would effectively contravene the purpose of the Pay TV Market review, which seeks to examine and address abuses of market power in the UK pay TV industry.

DNUK welcomes the opportunity to share its views on this issue and is willing to discuss further at your convenience.

Yours sincerely

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