

FREEVIEW response to Ofcom Call for inputs:

'Future use of the 700MHz band: Implementing Ofcom's UHF Strategy'

11th July 2013

1. Introduction

1.1 About Freeview

Freeview is the UK's most popular television platform, used in over three-quarters of all TV homes. Almost 11 million homes rely on Freeview as their sole provider of television (40%)¹. Furthermore, the DTT platform, of which Freeview is the cornerstone, is set to remain the country's largest platform with over 12 million main set homes forecast in 2020².

Freeview provides universal and free-at-the-point-of-use access to PSB services and broadcasts over 90% of the country's most watched television programmes subscription-free³.

Access to free TV services is extremely important to UK citizens with 90% of people saying the Freeview channels should be free at the point of use⁴, a percentage equally high amongst pay TV subscribers.

Freeview has enabled a significant expansion of choice in both consumer equipment and the range of content available. It has evolved to meet consumer needs with the introduction of digital TV recorders, HD channels and on-demand services. Freeview enables the delivery of new technology to the mass market.

Freeview supports the UK's horizontal market by driving sales of consumer electronics equipment and underpins the creative sector by delivering high volumes of share to UK broadcasters. Freeview product accounted for over 60% of the total value of consumer electronics sales in 2012⁵ and the platform delivers almost half of all PSB viewing share⁶.

The success of Freeview has driven platform competition and innovation. This has resulted in material consumer and citizen benefit, driving choice up and costs down.

In summary, Freeview is one of the country's great success stories providing significant value to UK consumers and UK plc.

¹ Source: BARB Establishment Survey Q1 2013

² Source: 3 Reasons LLP Spring 2013 Market Model

³ Source: BARB viewing figures, Jan-Mar 2013

⁴ YouGov online survey, June 2013

⁵ GfK LekTrak, Jan-Dec 2012

⁶ BARB viewing figures, May 2013

1.2 About this response

Freeview's response to this call for inputs has been put together on the basis of the organisation's role as custodians of free-TV and champions of its viewers' interests. It has been prepared by Freeview's management team and does not necessarily represent the individual views of our shareholders. We have kept our response limited to the areas in which we have expertise and are representatives on behalf of our viewers; specifically those areas relating to the DTT platform and the impact of a change in use of the 700MHz band on consumers.

2. Executive summary

Freeview welcomes Ofcom's call for inputs to assess 1) the costs and benefits associated with a potential change of use of the 700MHz band and 2) the measures that could be taken to minimise the costs and disruption resulting from any potential change. After considering the detail within the document, as well as reviewing Ofcom's 2012 UHF Strategy Statement, our views are summarised as follows:

2.1 General observations on potential clearance of the 700MHz band:

- we continue to question whether the case for clearance of the 700MHz band has been made and look forward to the output of a full cost benefit analysis
- indeed, we would welcome a more detailed analysis of ways in which demand for spectrum could be met other than through harmonisation
- releasing the 700MHz band poses a significant risk to the DTT platform, of which Freeview is the cornerstone. The platform's ability to continue meeting the needs of viewers must not be undermined in order to meet uncertain and unproven demand for mobile broadband

2.2 Preferred approach should clearance of the 700MHz band proceed:

- if clearance of the 700MHz band is required, it must be organised so that 1) the platform retains its current levels of capacity, coverage and regionality, and 2) viewers are fully supported - disruption is kept to a minimum, costs are borne by the beneficiaries of clearance not viewers, and interference to Freeview receivers is prevented
- in the event that 700MHz clearance proceeds, transition plans should be drawn up as early as possible and a confirmed timetable should also be in place within good time so as to minimise the aforementioned costs and disruption
- it is too early to identify the optimum timing to effect such a major change to the platform as this depends on the scope, scale and complexity of the re-engineering work required. The consumer impact of a release, namely aerial and equipment replacements, will be significantly impacted by timings

2.3 Comments on Ofcom's assessment of the potential costs and benefits:

- we broadly agree with the categories of costs identified by Ofcom but would recommend that the following additional costs are considered: 1) the direct costs of re-planning the network and programme management and 2) the indirect costs of disruption to viewers and

reputational damage potentially resulting in churn from the platform and costs/loss of revenues for those involved in running the platform due to reduced investment as a result of uncertainty caused by another major change to the platform. With regard to direct costs impacting consumers - namely aerial and equipment replacement - we believe it is essential that Ofcom's calculations extend to additional sets given the nine million homes using Freeview alongside another platform

- in relation to the potential benefits of releasing the 700MHz band for mobile use, we note the absence of any direct benefit for Freeview homes as a result of moving DTT to the 600MHz band. In fact, viewers are likely to endure the greatest negative impact of clearance (inconvenience and cost) but will be the least likely to benefit from new services enabled by the change
- we would also highlight the fact that whilst the costs associated with clearance are unequivocal, the benefits are still unproven. It is simply too early to tell whether the 'inexorable growth in demand for mobile data' will come to pass. Furthermore, given the recent release of the 800MHz band for 4G services coupled with alternative ways of increasing capacity, it may be some time before further spectrum is genuinely required

2.4 Reactions to Ofcom's assessment of the potential impact of clearance on viewers and suggested pre-emptive measures:

- Freeview agrees with Ofcom's assessment of the potential impact on Freeview viewers should harmonisation of the 700MHz band go ahead – aerial replacements, interference to receivers and equipment upgrades. Many viewers will also need to re-tune their Freeview box or television set
- we would welcome Ofcom's engaging with industry to encourage improvements to the performance of Freeview receivers that would minimise interference. However, as Ofcom acknowledges, there are likely to be technological and cost constraints involved which may limit any possible advancements in this area
- we welcome Ofcom's objective to continue delivering a Freeview service on a par with today's levels of capacity and coverage and understand that discussions are on-going as to which transmission and compression technologies will be required to meet said objective. In the event that a migration of Freeview to DVB-T2/MPEG4 broadcast standards is required it would be preferable to undertake such a change as part of the clearance of the 700MHz band in order to minimise disruption to viewers
- given the aspiration for Freeview to adopt more efficient broadcast standards, we welcome Ofcom's proposals to license two interim DVB-T2 multiplexes in the 600MHz band, which will enable the introduction of further HD services on the platform, thereby increasing the platform's competitiveness

In summary, Freeview urges Ofcom to look again at the cost and benefits of the clearance of 700MHz band and to ensure that any potential change does not risk the UK's most popular platform's ability to continue providing high quality content to the majority of the population and does not disadvantage viewers who have bought into and value free-to-air television. Ofcom's cost-benefit analysis needs to take into account the potential loss of consumer and citizen benefits that would arise were the DTT platform to be weakened as a result of a further clearance process.

3. Response to consultation questions

Question 1: Have we correctly identified and characterised the potential costs set out above, and what other costs – if any – should be taken into account in our assessment?

Freeview broadly agrees with the costs and benefits outlined in Section 4 of the Call for Inputs and for the avoidance of doubt, we have listed the main categories below:

- Changes to the DTT transmission network
- Consumer equipment replacement - including aerials and reception equipment
- Mitigation of interference from new mobile services on existing users
- Consumer information and support - particularly for vulnerable consumers
- Opportunity cost of 600 MHz band
- Reduction in interleaved spectrum

There are two other categories of costs missing from Ofcom's assessment:

- 1) Direct costs associated with re-planning the network – all project partners involved in initially planning any transition and subsequently managing its rollout, would incur costs
- 2) Indirect costs associated with viewer disruption and platform uncertainty – considerable disruption on the platform could lead to consumers switching platforms resulting in additional costs for themselves and loss of share (and therefore revenue) for some broadcasters. Furthermore, uncertainty caused by another change to the platform could constrain investment in DTT and lead operators to incur further costs

Question 2: What evidence, whether qualitative or quantitative, should we obtain and/or take into account in assessing each of these potential costs? Please identify any sources of specific evidence to which we should have regard.

Equipment replacement costs: costs associated with replacing equipment including aerials and receivers should cover all DTT sets, not just main sets. This is down to Freeview's importance as a second set platform, which could be undermined were the costs of replacing aerials and equipment enough to drive consumers away from the platform. Nine million homes use Freeview on one or more additional sets, around a third of all homes, augmenting considerably the public benefit delivered by the platform.

Freeview equipment: the earliest point at which clearance of the 700MHz band would go ahead is 2018. At this time, 25% of Freeview main set homes and almost 40% of homes with Freeview on an additional set would still be using DVB-T equipment⁷. This equates to around three million primary DTT households who would need to upgrade to DVB-T2 to access Freeview services should a migration to DVB-T2 be required. Ofcom will need to recognise the challenge involved in upgrading consumers to DVB-T2 equipment, especially for second sets where HD will be less of a driver given the smaller screen sizes.

Co-existence between DTT and mobile broadband: we welcome Ofcom's engagement on the mobile band plan and support the position that Channel 48 should be protected in international negotiations.

⁷ 3 Reasons LLP Spring 2013 Market Model

Consumer information and support: significant consumer information and support will be required for any clearance of the 700MHz band, particularly to vulnerable consumers who are likely to be the most affected by any changes. Freeview, alongside Digital UK, has a lot of experience in communicating with DTT viewers and would be happy to provide Ofcom with further thoughts and support.

In addition we would urge Ofcom to seek the views and experience of the wider industry, consumer groups and charities to ensure a holistic approach is taken to communicating the potential changes.

Question 3: Have we correctly identified and characterised the potential benefits set out above, and what other benefits – if any – should be taken into account in our assessment?

Freeview agrees with Ofcom's broad categories of the potential benefits of any clearance and notes the absence of any direct benefit for Freeview viewers. It is also worth highlighting that these benefits are uncertain and difficult to quantify. Furthermore, they should be considered alongside other ways of meeting the demand for increased mobile capacity - clearance of the 700MHz band should be a last resort not the first port of call.

Question 4: What evidence, whether qualitative or quantitative, should we obtain and/or take into account in assessing each of these potential benefits? Please identify any sources of specific evidence to which we should have regard.

Clearly the rapid adoption of mobile devices by consumers and the demand for data 'on the go' demonstrates the public's appreciation for mobile communications. However, the rise in mobile services should not be at the expense of existing public services which are also highly valued.

We would welcome further, more detailed analysis into future consumer demand for mobile services and the subsequent need for more capacity, as well as where possible, real world evidence of market demand. We are also not convinced that the alternative ways of providing capacity have been sufficiently explored as yet.

Question 5: In particular, what is your view of the likely future demand for additional sub-1 GHz spectrum for the provision of mobile data services, and what evidence supports this view?

Freeview has not commented on question 5.

Question 6: Should we place different weights on some costs and benefits than on others, for example depending on whether costs would be borne by consumers, DTT operators, or mobile operators?

As outlined in the executive summary, it is Freeview's view that costs associated with clearing the 700MHz band should not be borne by the Freeview consumer. This is a matter of principle. Whilst there are evident benefits for consumers generally - and indeed wider societal and economic benefits - of increased mobile broadband services, Freeview viewers will not gain any benefit from clearance of the 700MHz band. Instead the reality is that many could be faced with significant and costly disruption. We are particularly concerned for older viewers, the majority of whom are unlikely to be early adopters of new mobile services and more likely to be users of DTT. In fact, in research conducted last year, over 80% of consumers age 65 or over and over 70% of those age 55 or over

said they do not find 4G services appealing. This is significant given 40% of Freeview homes are 65+ and 50% are 55+.⁸

The benefits are instead weighted in favour of the mobile operators. And Government, who will benefit from the receipt of auction proceeds.

As such, it would not be justifiable to impose significant costs on consumers in order to deliver benefits to mobile operators and Government. Policy decisions taken during the process of assessing the requirement to clear the 700MHz band should reflect this imbalance.

Question 7: Do you have any other comments on the work we are currently undertaking on potential costs and benefits?

No further comments.

Question 8: Have we correctly identified the costs and benefits that could vary depending on the timing of release, and the impact of those factors? Are there other costs and benefits which would vary depending on the timing of release of the 700MHz band which we should take into account?

The international context is likely to have a significant bearing on the timing of release and Freeview supports Ofcom's efforts to influence discussions to achieve the best possible outcome for UK consumers. We agree that the output of the cost benefit analysis should be used to inform the optimum timing for change.

Clearly the consumer impact will vary depending on the timing of release - both in terms of aerial replacements and equipment upgrades (in the event that a transition to DVB-T2 is required). Replacement cycles for aerials are not well understood and more work is required to evaluate the precise numbers of people who may be affected. Similarly, replacement cycles for televisions had fallen during the boom period of flat screen TV purchasing but are widely regarded to have increased again due to the recession. Given many consumers have recently been through the considerable investment that was required for DSO, further costs and disruption to the platform will not be welcome.

As already mentioned, current industry forecasts suggest that universal take-up of Freeview HD equipment will not be achieved in the timescales outlined in the call for inputs for 700MHz clearance. Indeed, should a change to DVB-T2 be required, support and commitment from both Government and Ofcom would be necessary to aid consumers with the change.

Question 9: How quickly could the 700MHz band be released? What would be the impact on DTT infrastructure costs of releasing at the earliest possible time compared to a later time? What would be the factors which affect these costs?

The mux operators are the best placed to respond to this question and we would endorse their view given their expertise on infrastructure costs.

Question 10: How, and to what extent, are the costs for existing (PMSE) and potential (WSD) interleaved users of the 700MHz band likely to vary depending on the timing of release? What would be the factors which affect these costs?

⁸ Kantar research on the understanding, awareness and appeal of 4G services, April 2012

Question 11: Should we consider any other cost-related arguments / evidence in favour of an earlier or later release date?

Freeview has not commented on questions relating to the impact of timings on PMSE users and white space devices (10 & 11).

Question 12: What would be the impact on mobile broadband delivery and competition of releasing the 700MHz band later rather than sooner?

As already stated, Freeview does not believe there is sufficient evidence to demonstrate that access to the 700MHz band for mobile services is required. As such, it would not be appropriate to comment on the implications of an earlier or later release.

Question 13: Should we consider any other benefit-related arguments / evidence in favour of an earlier or later release date?

No further comments.

Questions 14-19 on market mechanisms

Freeview has not responded to questions 14 – 19.

Question 20: Have we correctly identified and characterised the potential impact of 700MHz release on consumers accessing DTT? What other impact - if any - should be taken into account in order to identify pre-emptive measures to reduce this impact?

Freeview agrees with the three areas of impact on consumers using Freeview identified by Ofcom - aerial replacements, interference from new mobile services and possible equipment upgrades.

In addition, re-tuning of equipment will be necessary for a large proportion of households. Based on Digital UK's experience of DSO and the more recent clearance programme as well as visits to the relevant pages of our consumer website, re-tuning is a process that many consumers need support with. We are particularly aware of those who are vulnerable and the need to provide adequate and relevant consumer facing information to these groups in order to ensure minimum disruption and cost is incurred.

Question 21: Do you have any comments on the pre-emptive measures relevant to DTT identified above? Are there other pre-emptive measures we should be considering?

Freeview supports the pre-emptive measures outlined in the call for inputs. We particularly welcome Ofcom's on-going efforts to ensure Channel 48 is fully protected from adjacent band services so as to reduce the risk of co-existence issues.

Question 22: Have we identified the correct measures to support consumer adoption of DVB-T2?

Freeview welcomes Ofcom's commitment to maintaining current levels of DTT capacity and coverage, and the recognition that there is no substitute for the platform for the foreseeable future.

In the context of transitioning the platform to more efficient broadcast standards, we support the proposed measures comprising consumer and industry messaging.

We agree it would be helpful to raise consumer awareness of DVB-T2 equipment and would suggest that this work includes a full evaluation of consumers' understanding of logos and trademarks. It is our belief that there is considerable consumer confusion regarding the meaning of different logos in the market and this may be a barrier to take-up of the latest equipment.

We also concur that a better understanding of CE manufacturers' discontinuation plans for DVB-T product is critical to forecasting consumer take-up of T2 and planning for a migration to new standards. Given that the UK is a relatively small market, these discussions will need to take place on a pan-European level. An evaluation of the viability of mandating DVB-T2 in product would also be helpful.

Question 23: What regard, if any, should we have to wider technical evolution of the DTT platform, such as HEVC?

Freeview welcomes all technological developments that allow the spectrum to be deployed more efficiently and enable the addition of news services to the platform.

However, at this stage, it is difficult to see how the HEVC standard could be incorporated into the process within the likely clearance timetable.

Questions 24-26 on the potential impact of a 700MHz release on PMSE users

Freeview has not responded to questions 24 - 26.