

Sky Proposal to offer Pay services on DTT

This Document summarises the Proposal from Sky to provide Pay services on the UK DTT network, Highlights the 10 questions set out within the OFCOM consultation document and highlights some of my own concerns or considerations on the proposal.

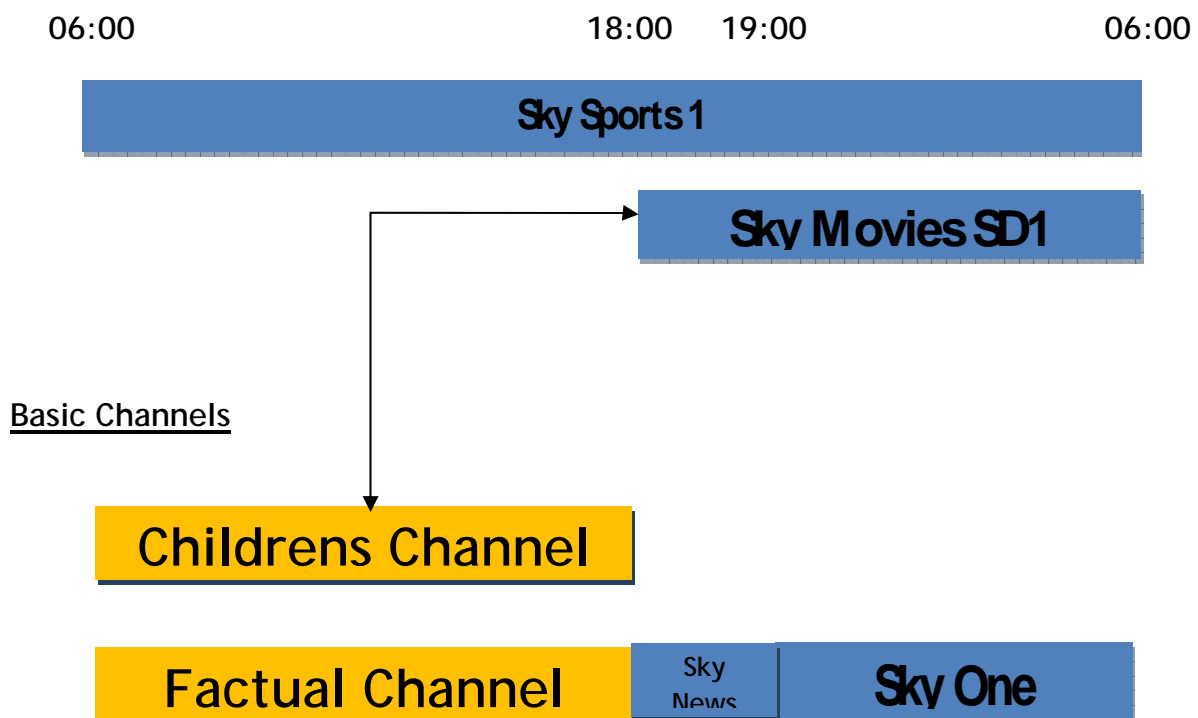
Summary of the Proposal

The proposal from Sky is to remove its current 3 services that are Free to Air (FTA) on the UK DTT network with 5 Pay TV services.

The Current services are Sky News, Sky Sports News and Sky Three. The proposed new services are Sky Sports 1, Sky Movies SD1, Sky One (including 1 hour of Sky News), a factual and a children's service both of which are still to be decided.

Additionally it should be noted that Sky Movies SD1, Sky One, the proposed factual and children's service will be broadcast only during part of the day. Please see diagram below for explanation:-

Premium Channels



Summary of the Proposal (cont.)

Additional to the change of the services, there are changes to the technical platform also proposed.

The proposal indicates that the new services will be encoded using MPEG 4 and encrypted using NDS Conditional Access (CA) system.

OFCOM Consultation Questions

1. To what extent do you consider that DTT, DSat, cable and IPTV are in competition with one another for subscribers of pay TV services - either at present or in the future?
2. To what extent do you consider the Proposal is likely to deliver benefits to the consumer?
3. To What extent do you consider that there is scope for sustainable competition in pay TV on the DTT Platform and, more broadly, across all Pay TV platforms?
4. What are likely to be the key aspects of competition between providers of retail and pay TV services on the DTT platform? E.G. what is the role of premium sports and movies content?
5. Do you consider that if Sky were to become the only provider of pay TV on the DTT platform would it likely to have significant detrimental effect on the competition in the long term? How might this affect the development of other platforms for the delivery of pay TV services?
6. To what extent, if at all, do you consider that the Proposal would likely lead to any of the public policy concerns indicated below?
 - a. Implications for FTA Television and perceptions of "Freeview"
 - b. Marketing of "Freeview"
 - c. Concerns regarding DTT reception equipment.
7. Specifically, to what extent do you consider that the Proposal would likely lead to consumer confusion.
8. To what extent do you consider that it is beneficial for consumers to be able to obtain Sky and existing DTT pay TV content without having to purchase separate STB's?
9. Do you consider that the Proposal might lead to any additional public policy concerns?
10. If Sky becoming the only provider of pay TV services on the DTT platform were likely to have a significant detrimental effect on competition, do you consider that it is possible to address this through a set of additional conditions and/or directions? If so, what form should those condition/directions take?

Answers to the OFCOM questions

1. We believe that the current competitions of pay TV services are mainly between Cable and DSAT platforms. Only recently IPTV (BT Vision) and DTT (Setanta) has been seen as competitors in the pay TV market. As for the future, we believe that no platform can truly compete against the Cable and DSAT platforms as the newer platforms have constraints in delivery that they do not.
2. We believe that the Proposal does offer the consumer a benefit, to the fact that the "Premium Channels" offer attractive content. However the unattractive point is the fact of having to purchase a new receiver to obtain the service which is not compatible with the existing pay TV services.
3. We believe it is difficult to conclude this without further detail but it could be imagined that competition would be difficult to sustain on the DTT platform. The points to be considered are:-
 - a. The market approach of Sky on their DSAT platform where specific offers are made based upon contracts are attractive and could be considered as one of the reasons "On Digital" initially failed.
 - b. The current on going disputes between Sky and Virgin Media is showing the power Sky has on content provision.
 - c. The Proposal would likely end with a large majority of the DTT users to chose between the current available pay TV services or the Sky pay TV services due to incompatibility of the receiver(s) to handle both CA systems.
4. Currently Sport content especially Premiership Football is the number 1 TV content followed by Movie Premiers. Despite the fact that Sky has a significant market on DSAT, due to the content available and the purchasing power they have in relation to obtaining Movie content and still have the largest amount of sport content on any platform, we do not believe it will have an effect to FTA services. However we believe it will put a strain, if not kill off, the existing DTT pay TV services.
5. We believe the key here is in relation to the CA systems in place. Without the ability to have a single receiver that is usable across the whole platform services cannot fairly and effectively compete. We are not clear at this point if Sky would allow or approve a product that is compatible with more than one CA system. (i.e. NDS and Mediaguard). Additionally due to the fact that NDS does not provide support of the CA system to CAM modules this limits the receivers to have embedded CA.
6. We do not have any concerns over the Proposal effecting FTA Television or the perception and marketing of "Freeview". However we do have concerns over the effect the Proposal has over reception equipment. The points we would like to highlight is as mentioned earlier.
 - a. Firstly that the non support of CAM modules by the NDS CA system would require iDTV's would require embedded CA and create a single

product for a single market. At present iDTV products do not support embedded CA as a single product platform is designed to cover the whole of Europe and enables costs to be kept at a minimum. A similar situation has occurred in Italy, a strong pay TV market. Here broadcasters in the market chose three different CA systems, STB's with embedded CA and multiple card slots were introduced to the market although iDTV products did not follow this approach. It was identified by the broadcasters that iDTV products we needed/wanted by the consumer in the Italian market and recently changed their stance to begin support CAM modules and in particular a module that is capable of multi-CA systems.

- b. Secondly we do not believe consumers will be satisfied to need more than one receiver (e.g. customers who currently have an iDTV or DTR would need an additional receiver) to be capable of receiving all the DTT content. Without Sky allowing receiver manufacturers to design receivers that are capable of multiple CA systems this would create an element of unreasonable solutions for the DTT horizontal market.
7. We would consider customer confusion in several areas.
- a. Firstly the receiver, the fact that their existing receiver is not capable of obtaining service being broadcast on the DTT network and the need to buy yet another receiver.
 - b. Secondly it adds an additional element of choice when deciding what to do with the existing TV receivers in the Home, this is related to DSO and the customer needs to decide what they have to do for the multiple receivers that the typical home has.
 - c. The additional consideration of future DTT Network developments also needs to be dealt with in the near future, i.e. HD, this will definitely require the customer to consider the purchase of a new receiver and will lead to customers not knowing when is the right time to purchase or what to purchase. This could also lead to the delay in developing a HD DTT service.
8. We believe that the ability of consumers to receive the proposed services without having to change their receiving equipment would be a huge benefit to the consumer. Additionally we believe that it would avoid any delay in the migration of the DTT network to newer technologies and services.
9. We do not believe there is any key public concerns that have not been raised by the consultation although I do have an impression of a lack of consideration to iDTV and recording device receivers within the document. Additionally, on an industrial point, although there has been a statement on the future development of DTT services, in particular MPEG 4 and DVB-T2, there have not been any questions directed at this area. As many industry areas are aware there is a significant push on the continued development of the DTT network. This Proposal could be considered as one consideration in

the UK DTT development. However we believe the next key stage of significant change should be towards HD services. We believe the introduction of new, attractive pay services on an MPEG 4 SD platform would slow the development of HD services on the DTT platform using both MPEG 4 and DVB-T2 technologies. We believe that this would be a greater loss to the DTT network and to the public. Additionally this delay of HD services would additionally benefit Sky giving more time to enhance and strengthen their HD content before any significant competition becomes available.

10. We believe the Proposal not only have a possibility of “killing off” the pay TV competition but delaying the UK DTT network development. We would question that Sky is in theory providing the same number of channels although on two channels the services will be shared during different parts of the day. Therefore in theory the bandwidth required for the proposed services to be provided using MPEG2 would be the same as that for the existing three channels.

Points of Concern

1. Firstly and most obviously that the Proposal would not be compatible with any receiver currently being sold on the open market due to the use of MPEG 4 and NDS CA.
2. If the consumer wanted the Proposed, and must be said attractive, services (if priced right) would need to purchase new receiver to obtain these services.
3. Such new receiver would not be compatible with the existing pay TV services offered by Top-up TV or Setanta and would therefore force the customer to choose between services or purchase more than one receiver to obtain all DTT services.
4. Additionally you would have to consider the percentage of people who would identify the loss of services on their existing receivers without new service being added.
5. Also based upon the Government's push to improve receiver usability on the DTT network we do not see any commitment to provide additional services such as Audio Descriptor.
6. In Relation to our product range, in particular iDTV, would firstly not be compatible as any other received but in the future the introduction of HD iDTV receivers would also not be compatible as NDS has no support of CAM modules that can be used via the common interface.
7. We believe this adds another issue when considering how to migrate the existing DTT network to HD services. The fact that there will be confusion over the additional receiver required being MPEG4 but not compatible to HD services. The issue with customer that buys a receiver wants to get value from the purchase and would not be happy to change soon after purchasing

one receiver, although the proposal is not entirely the reason but it would add to customer annoyance.