

Channel 4's response to Ofcom's consultation

Digital Dividend: clearing the 800 Mhz band

Executive Summary

Channel 4 welcomes the opportunity to input to Ofcom's thinking around the proposed changes to the Digital Dividend arrangements.

Channel 4 understands and acknowledges the clear logic of the desire to change the Digital Dividend arrangements for the UK given the indications that a range of other European nations will reserve capacity for mobile broadband services in the 800Mhz spectrum band. We have, however, very significant reservations about this proposal.

Our main concerns are:

1. the uncertainty this proposal introduces to the DTT platform for consumers. Channel 4 is keen to ensure that consumers have certainty of choice as part of DSO: it is important that consumers know which platform options are open to them and can make properly informed decisions about which platform to adopt. Channel 4 regards the DTT platform as our principal distribution platform. We are, therefore, concerned that these proposals detract from the attractiveness of DTT as a platform for consumers by making it a more complicated, uncertain and expensive consumer choice;
2. the possible knock-on impact on DSO, even assuming that efforts are made to insulate it from this change; and
3. the potential impact on broadcasters and other stakeholders around the funding, complexity of costing and overall programme governance of the proposal.

If the proposal goes ahead it is therefore essential that:

1. ideally there is no change in multiplex coverage levels and no impact on consumers. As a minimum proposed replacement frequencies for digital television services must match current multiplex coverage levels as exactly as possible;
2. the amount of re-tuning of consumer equipment required during the implementation is kept to an absolute minimum as this is the key learning to date in the DSO project;
3. there is a joined-up consumer communication plan covering DSO, the launch of HD on DTT and this change;
4. there is a robust, modular, structure for establishing cost estimates for each element of the programme (including the opportunity cost for broadcasters of lost viewing on DTT), and agreeing funding in advance of work commencing, and
5. the overall work plan and project governance structure is put in place as soon as possible.

In this document we have responded to each of the questions set out in the Ofcom consultation.

Channel 4 is keen to continue to engage with Ofcom over the course of the consultation and play a full and active part in the next stages of any further work.

The costs and benefits of clearing the 800 MHz band

Question 1. Do you agree that clearing DTT from channels 61 and 62 and PMSE from channel 69 to align the upper band of cleared spectrum in the UK with the emerging digital dividend in other European countries is likely to further the interests of citizens and consumers to the greatest extent?

Channel 4 acknowledges that there is a clear logic in clearing these channels if a substantial majority of other European countries intend to clear the same spectrum for mobile broadband communications. We are, however, unable to comment as to whether this process is likely to further the interests of citizens and consumers to the greatest extent compared to other possible alternatives.

Moving DTT from channels 61 and 62

Question 2. Do you agree that the proposed DTT migration criteria are proportionate and appropriate? If no, please explain why and clearly identify any other criteria you believe should be adopted and why.

Channel 4 agrees that the three criteria are broadly appropriate in minimising disruption to existing users of this spectrum. We have, however, two major concerns.

Firstly we are concerned that the definition of “additional cost” in the second criterion is not defined sufficiently widely to cover all the costs necessarily incurred by broadcasters, assuming the proposed changes take place. Our view remains that these changes are likely to make the DTT platform less attractive as a main television delivery platform for consumers and that it is highly likely that DTT uptake will therefore be impaired. We believe the lost audience, and therefore advertising revenue, resulting from this is as much a cost of this proposal as any work on re-planning and refitting the networks.

Secondly we believe that there will be a significant impact on viewers:

- following any exercise to clear channels 61 and 62, there will be viewers who could have received the DTT multiplexes before the change but who will then fall out of coverage of one or more multiplexes. We acknowledge that there may be viewers who will then come into coverage but, since these viewers will not have had DTT coverage at DSO, they will have had to opt to receive television from a different distribution medium. This means that viewers coming into coverage will not “compensate” or equal out those falling out of coverage as they will already have been lost to the DTT platform. If this proposal were to go ahead consumers could not be completely certain that their ability to continue to receive DTT will not be adversely impacted by this process
- consumers who have chosen a closed platform (ie Sky or Virgin Media) as their prime source of television will not be affected by these changes. However, those who have, or are considering taking, DTT as their principal method of receiving television have no guarantee that they won't have to opt for a different platform later and incur the cost of that change, wasting their investment in DTT. Therefore this programme will, even if only at the margin, make the choice of Sky or Virgin Media as the main provider more attractive and Freeview less attractive for those choosing a source of digital television. Since Channel 4 sees the DTT platform as our most important distribution medium this uncertainty is unwelcome

- we know from digital switchover at the Selkirk transmitter and the recent experience at Rowridge that consumers find re-scanning/re-tuning of their equipment the most difficult part of DSO. Clearing Channels 61 and 62 will involve consumers having to re-scan their equipment, potentially multiple times, and is therefore likely to, at best, cause additional uncertainty and anxiety for some consumers. At worst some consumers will lose services and/or incur cost in order to retain them. In our view it is therefore imperative that re-tuning is kept to an absolute minimum and that replacement frequencies ensure no loss of coverage for consumers; and
- we note that the consultation document makes no reference to the proposed launch of HD services on DTT. This launch will also require a significant amount of work in planning and installing the new network and communicating the services to consumers. The communication of the launch of these new HD services will need to be co-ordinated with the overall DSO programme (as is required in the Ofcom draft HD licences). Adding this new clearance programme into what is already a very complex DSO communication exercise, plus the added complexity of the launch of HD, may cause confusion for consumers and will be a significant logistical challenge. We believe it is important that all three programmes are considered simultaneously for consumer communication and that the launch of HD services should be explicitly factored into this programme, if taken forward, in the same way that DSO has been.

Question 3. Do you have views on the options identified and our assessment of them? Do you believe there are other, superior options, and, if so, why? Do you agree that the hybrid option is most consistent with the DTT migration criteria?

Based on the evidence outlined in the consultation document Channel 4 agrees that the hybrid option seems the most appropriate because it should generate the least disruption to viewers as it minimises the size of the domestic aerial issue.

We would like to see work completed on *all* the affected transmitter sites, including any knock-on impacts, beyond the 233 sites (which represent around 20% of the DTT network) which are planned to use Channels 61 and/or 62 in the post-DSO frequency plan, before a final decision is taken in case there are any unexpected impacts on sites not yet considered.

We suggest that this further work is completed as soon as possible so that a final decision on which option to use can be taken as soon as possible.

Question 4. Do you have views on the implementation-timing options identified and our assessment of them? Do you agree that DSO-integrated implementation is most consistent with the DTT migration criteria? If not, why not?

Channel 4's view on the three options outlined is as follows:

1. Re-cast DSO

This option fails the first criterion test set out by Ofcom because it would inevitably delay the whole DSO process: by 18 months in Ofcom's estimate. It also does not deliver the cleared spectrum in channels 61 and 62 until the end of the process so there is no obvious benefit in accelerating the availability of DDR spectrum.

2. Post-DSO implementation

This option has the benefit of not impacting DSO at all. So it meets the first criterion of the tests set out by Ofcom. It is likely to have a considerable impact on viewers, however, as it will require a significant number of retunes. Evidence to date from DigitalUK is that it is the retuning required by DSO that viewers are struggling with most. For that reason it would not be Channel 4's preferred option.

This option is also likely to be the most costly as it allows DSO to completely finish before the new spectrum clearance process starts. Although the second criterion states that broadcasters and other licensed users of the spectrum would not be expected to pick up the cost of the proposed changes, looking at all the criteria together suggests this should not be the preferred option.

3. DSO-integrated implementation

We are concerned that the additional resources needed to implement this hybrid option may impact the DSO programme, which is itself already stretched by the addition of the T2 HD project. However we believe this option best meets Ofcom's criteria for the proposed changes, if the project is initiated and set up so as to minimise the potential impact on the overall DSO programme, although we do not underestimate the complexity of this integration and the task of co-ordination. This approach should also facilitate the integrated approach to communication of DSO, the launch of HD services on DTT and the DDR programme that we referred to in our response to question 2.

The costs of the proposed changes should also be minimised by integration with DSO in so far as it is possible. As Ofcom is aware much of the planning work for DSO has already been completed, limiting the scope for integration with this programme. Where possible, however, integration should mean lower technical and planning costs than starting the process from scratch post-DSO and should reduce the costs of communication with viewers, particularly for those in the latter stages of DSO.

Finally this option should have a lower impact on viewers than option 2 as those households in the latter stages of the DSO project might be unaffected by the proposal.

Question 5. Do you agree that a programme-control and -governance arrangement such as that outlined above is appropriate?

In order to meet the success criteria set out by Ofcom strong and effective programme governance will be essential. This is a very complex proposal since it involves making changes in the allocation of broadcasting frequencies when they are already undergoing significant change due to DSO and the launch of HD services. Because of that complexity we believe this proposal is best viewed and implemented as a series of discrete but interlocking projects. This approach has the benefit of allowing the task to be addressed in a series of 'bite-sized chunks'. If this programme is approached as one large project it is likely to take too long to initiate and implement, given Ofcom and Government's preference for a compressed timetable, and is likely to be difficult, if not impossible, to cost with reasonable levels of confidence before work commences.

We therefore recommend that a modular approach is adopted so that the project can be implemented more effectively and costs can be established for each element as the process advances.

We understand Ofcom has appointed Deloitte to look at this aspect of the project and we will ensure that we fully engage with them to assist with the design of the programme management.

Channel 4 believes that Ofcom has correctly identified the broad categories of activity (shown on the bottom layer of Figure 8 of the consultation document) that will be required with one exception: there is no reference to overall financial control or budgetary management. Channel 4 believes this will be fundamental to the successful delivery of this programme: whoever is funding the programme will want to know that they are getting good value for money and the current stakeholders will want to know that all of the incremental costs necessarily incurred in implementing the programme will be covered.

In terms of the structures proposed, our view is that the responsibilities of the various layers in Figure 8 are not immediately clear. It is also unclear to us why there is a need for both programme management level work and an additional steering group level of management. It is not clear from the consultation document what a steering group will add over and above the programme management function, which, by definition, should pull together all the individual project strands of the programme. We believe this structure could be simplified without loss of effectiveness at the same time aiding clarity of roles and responsibilities.

As noted above we believe the programme consists of elements which we consider should be divided into phases. Each phase may need different structures or organisations to be involved. For example, international co-ordination and spectrum planning need to be undertaken in advance of any implementation work whereas infrastructure alterations, communications and consumer support are only likely to be required after the planning work has been completed. We also believe that the stakeholders who need to be involved for the spectrum planning and international co-ordination stages are different from those who need to be involved in the implementation stages. We recommend that Ofcom and Deloitte involve different parties in each element of the overall programme as required.

In the implementation phase the major cost of this programme will fall on the multiplex operators as it is those organisations who have the underlying transmission contracts with Arqiva for the delivery of DTT services. It is these organisations who will be ultimately responsible for changes to broadcast infrastructure, not individual broadcasters (although clearly these groups overlap in certain instances and costs may be passed from multiplex operators to broadcasters). Channel 4 has direct experience of this area through its shareholding and management of Digital 3 and 4 Limited ("D3&4").

Question 6. Do you agree that the four cost categories adequately capture the costs associated with clearing DTT from channels 61 and 62? Are there any costs that do not appear to have been accounted for in any of these categories?

We believe that the full extent of the costs which may be incurred as part of this programme need to be assessed as soon as possible and ideally in advance of any work commencing. Our view is that the costs incurred could be significantly greater than they might look at first pass and they may start to be incurred earlier than anticipated. We believe that by dividing the

programme into a series of elements it will be easier to identify the cost of each of those elements and therefore total costs involved.

We recommend that the mechanism for addressing, verifying and approving funding for the programme is put in place as soon as possible so that there is clarity for broadcasters and multiplex operators. If the proposal goes ahead, we would expect costs to begin to be incurred this year. Channel 4 recognises that implementing the hybrid option will create complexity around management and separation of costs between the DSO programme and this proposed programme. In our view, it is therefore essential that the funding process is flexible and doesn't impose an administrative burden on broadcasters or multiplex operators.

Overall Channel 4 agrees that the cost categories set out by Ofcom broadly cover the likely costs of the programme (with one exception, see below). At this stage we think it is impossible to be precise about the total cost of the programme because, as Ofcom will be aware, we don't have final costs for the DSO programme itself. This means that it is challenging to provide a baseline to compare against. Again we believe a modular approach will make this task easier.

In our view the physical cost of re-planning and re-engineering the transmitter network needs to be agreed in advance of work commencing and must not impose a cash flow burden on broadcasters or multiplex operators. Therefore, a mechanism needs to be established quickly which allows the initial phases of required work by stakeholders to be identified and funded *in advance* of any of that cost being incurred.

The element of cost which we think is missing is the opportunity cost of making DTT a less attractive and more complex platform for consumers. We believe that Channel 4's, and other broadcasters', advertising revenues are likely to be adversely impacted by this proposal. This has not been recognised in Ofcom's current cost categories or cost estimates for the total programme.

Question 7. Do you agree that our cost profile is a reasonable basis for planning the capital expenditure for clearing DTT from channels 61 and 62?

At this stage we do not believe the programme has been sufficiently developed to know whether the cost profile set out by Ofcom is reasonable or not. We do agree that the initial 'set up' phase of the programme is likely to concentrate on spectrum planning and international co-ordination and that capital expenditure on alterations to networks and expenditure on viewer communication and support are likely to come later in the implementation phase of the programme.

Given that we are already in spring 2009 we believe it unlikely that clarity of costs, their profile and the overall work plan will be completed within the timescales suggested by Ofcom. As noted above, we believe it is important that the initial costs of the programme and how they are to be funded are determined in advance of any substantive implementation work being started. Therefore, we do agree that determining the costs, their profile and the work plan should be a priority for Ofcom.

Moving PMSE from Channel 69

We have no comments on Questions 8 to 15.

Impact Assessment

Question 16. Do you agree with our analysis of the key impacts of our policy options? Are there any other key impacts we should assess?

Channel 4 believes that the impact analysis broadly covers the main issues in clearing the 800 MHz band.

Taken as a whole, although we have some concerns about the detail of the cost-benefit analysis (as summarised below), we doubt that a further assessment of these issues would change Ofcom's overall conclusion, though we are keen to ensure that Ofcom (and others) do not overlook the operational impacts of the policy implementation.

We do not feel that enough information has been presented to enable us to comment on specifics of the cost-benefit analysis set out in the consultation. As previously stated we remain concerned about the potential adverse impact of the policy on the overall success of the DTT platform. The consultation recognises the need for a smooth transition to new frequencies after DSO at minimum disruption to viewers. However, it does not explain how this can be achieved when c11m viewers will need to retune their receiving equipment after DSO, assuming the programme goes ahead. As we have pointed out above, no other digital platforms have a need to create such disruption to viewers and Channel 4 does not believe that the impact assessment adequately reflects the effect on the DTT platform of such a major exercise so soon after DSO. In our view the cost estimate of this element of the process, at £15m, does not appear to take into account the potential reduction in the overall take-up of DTT because it becomes a complex and unsettled platform or the potential cost to consumers from having to swap or upgrade equipment. We also believe it does not recognise the opportunity cost of lost advertising revenues to the commercial broadcasters on the DTT platform, including Channel 4, from lower viewer numbers.

We also have some doubts about whether there is sufficient certainty in the cost -benefit analysis at this stage to justify all of Ofcom's conclusions. In particular, there is no reference to the costs of disruption to the DTT platform and the impact on viewers of the re-channelling exercise. By some estimates this will involve 450 transmitter stations servicing 30% of the UK population and there will be additional impact if the two step change is implemented under the hybrid option because that potentially extends the number of sites at which frequencies need to be changed. As a result the basis for the figures in A5.93 is unclear.

Section 6: Securing the UK's interests in international negotiations

Channel 4 agrees with Ofcom's assessment of the need for negotiations with the UK's international neighbours. However we have the following concerns:

- In suggesting that these negotiations can be completed by the end of 2009 Ofcom itself has noted that this is an aggressive timetable. Channel 4 believes that it is highly unlikely that *all* affected sites will be co-ordinated in that timescale which will affect the delivery of the project because completion of Regional System Design relies on the availability of a frequency plan for all transmitters in the region.

- The emphasis on negotiations for clearing the 800 MHz band carries the danger that co-ordination of outstanding DSO sites will be delayed and/or that they will become bargaining chips in the wider negotiation. In either event, the DSO programme is likely to be delayed which is contrary to the success criteria set out for the overall programme.
- The demand on the scarce resource of Frequency Planners needs to be carefully and transparently managed to ensure that there is also no detrimental effect on DSO.

Section 7

Next Steps

In paragraph 7.10 Ofcom sets out a summary of its expected timetable for the project. Channel 4 is concerned that this timetable may not be realistic and believes that a credible plan can only be put in place once there is certainty over funding, the likely cost of the exercise and how the programme will be managed and by whom.

We urge Ofcom to allow time for the programme governance to be formerly established so that a proper assessment of the realistic timescales can be made once there is a better view of:

- the source and timing of funding (and how that will be made available to the various elements of the project)
- the timetable for international negotiations
- the impact on resources required for DSO.

We look forward to working with Ofcom to find the answers to all the outstanding questions.