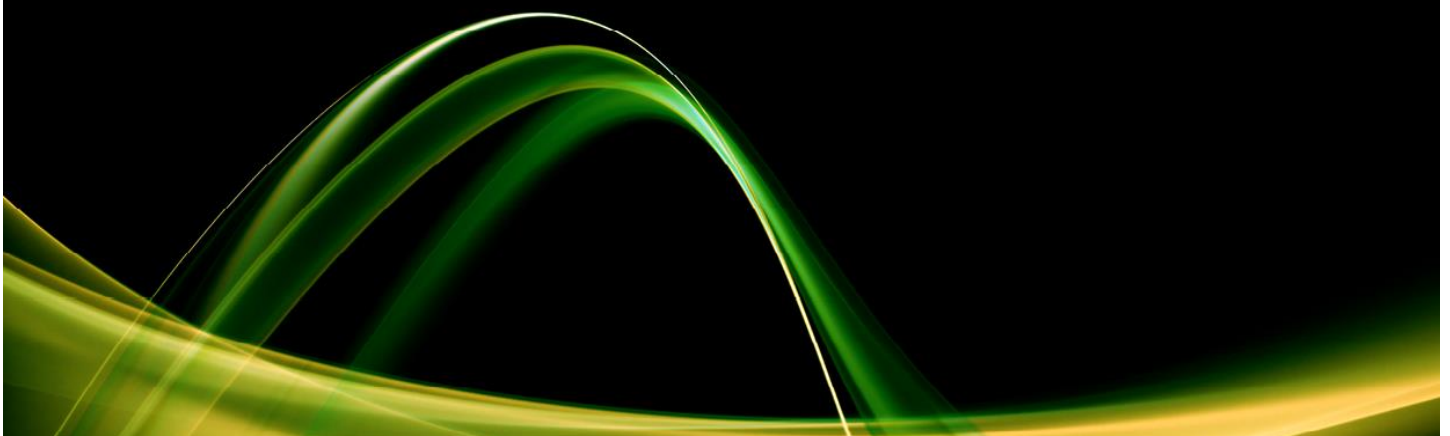




Prospects for commercial digital terrestrial television in the Republic of Ireland

A report for the Broadcasting Authority of Ireland
prepared by Oliver & Ohlbaum Associates Limited

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Executive Summary

This report evaluates the prospects for a commercial digital terrestrial television (DTT) service in Ireland. It has been prepared for the Broadcasting Authority of Ireland to help them decide whether or not to initiate a new licensing process for commercial DTT multiplex capacity.

The Broadcasting Commission of Ireland (BCI – the forerunner to the BAI) initiated a licensing process for three commercial DTT multiplexes in 2008 which attracted applications from three consortia, but terms were not agreed and licences were not issued; the process was shelved in 2010. We believe that changes in the economic landscape and the TV market since that time make it less likely that a commercial proposition will emerge which investors could back in a new licensing round today.

Ireland has experienced a significant and sustained period of falling gross domestic product and household income, placing downward pressure on advertising budgets and pay TV subscriptions. The migration by households to digital TV prior to digital switchover (October 2012) has resulted in the market consolidating around two pay TV operators, who are bundling pay TV with broadband and telephony, and Freesat – a free TV service available as overspill from the United Kingdom.

DTT also has limitations compared with competing distribution platforms: It is an expensive means of transmission compared with digital satellite, and does not have the functionality such as on-demand TV, telephony and internet access which digital cable offers.

Investors are likely to judge DTT a less appealing technology to fund than it was five years ago when fully 30 per cent of Irish households were still watching analogue TV and digital switchover was a driver of migration to digital platforms; the time horizon for investments to reach profitability has also shrunk, and projects which were marginal in 2008 will not be invested in in today's economic climate.

The future of Saorview is not assured

Saorview was launched in 2011 utilising a single public service multiplex. Three Broadcasters – RTÉ, TG4 and TV3 – occupy the capacity. Approximately half a million households receive Saorview, although of these only 180,000 do not have access to another TV platform as well. It is a limited service which puts it at a competitive disadvantage as there are only seven channels on the service, of which only one – RTÉ Two – broadcasts in high definition (HD); this is a very small channel line-up compared with other DTT services across Europe.

The number of Saorview 'unique homes' is shrinking as people migrate to other free and pay services – and the future of Saorview as a high reach service is not assured unless the content and functionality available on the platform continues to develop. Without a wider offering, we believe that Saorview will continue to decline in popularity and will reach a point sometime after 2020 at which its economics become questionable.

Three potential business models for a commercial DTT service

Finding a way to make Saorview more attractive is thus necessary – even to those broadcasters already on the platform. A commercial service alongside Saorview would improve the appeal of the platform by broadening the range of channels available to view; and although the existing channels on Saorview would lose some viewing share to new channels joining the service, the alternative (that households migrate to other digital TV platforms) would result in even greater loss of viewing.

There are three business models that a commercial DTT service might adopt:

- Free TV: An advertising-funded business model which existing Saorview households can receive through their existing reception equipment, and which new consumers can access for the one-off cost of a set top box, or TV with integrated DTT receiver, and aerial installation. We have called this option Saorview "plus".
- Pay TV: An entry level pay TV service priced to compete with the basic TV package provided by existing pay operators BSkyB Ireland (digital satellite) and UPC (digital cable). This Saorview

“pay lite” option, which would be targeted at price-conscious households, would also offer a small premium bundle of sport and movies for an additional subscription.

- Triple-Play: We explore a third business model which could be open to a fixed network telecommunications provider; namely, to use DTT to distribute broadcast free TV as part of a bundled service comprising telephony, broadband access and pay TV services (the latter probably streamed or multicast via the operator’s network rather than broadcast terrestrially).

Commercial services will face significant challenges

Specific challenges face each of the commercial business models:

Saorview “plus” would be reliant on advertising – a revenue stream that has declined by 40 per cent in nominal terms between 2007 and 2012; and compete for audience against Freesat, which is growing in popularity as manufacturers develop and retail ‘combi-boxes’ which give access to Freesat via a dish and Saorview via an aerial. Our modelling of the economics of the platform suggest that DTT distribution might only be financially viable for existing free TV channels seeking incremental revenue – and these would tend to be UK-based channels currently distributing on Freesat. The platform would be unable to secure distribution of UK public service broadcasters or pay TV channels. The service would also not support significant marketing spend, which would limit its ability to attract new households.

Saorview “pay lite” would be entering a market with high existing pay TV penetration (70 per cent of households already have a pay TV service) and growing use of bundling (TV, telephony and internet access from the same provider) which provides value to consumers and increases switching costs. The service should be able to negotiate commercial terms with channel brands to create a strong line-up, but potentially at higher cost per household than existing platform operators because it is smaller and has less leverage; thus it would be competing at a cost disadvantage to existing pay TV services. Pricing of the service will be critical, and we are sceptical that a new service launching from scratch would be able to price competitively to secure subscribers while also starting to show returns for investors within a reasonable timeframe (say five years).

The hybrid ‘Triple-Play’ business model would address DTT’s technical limitations by ‘bolting’ the service to a broadband network, but the strategic logic for an operator to invest in a second platform for content distribution (DTT) versus developing an existing physical network infrastructure is not strong.

The market will not support a commercial proposition

Our overall conclusion is that the market in Ireland will not support a commercial DTT proposition and that the BAI should not proceed with a new licensing process. The licensing process is not cost free – the preparation of bid documents is costly for participants and the evaluation of these applications is complex and time-consuming for BAI personnel. There is also potentially reputational risk for the BAI in attempting a fresh licensing process for commercial DTT that could end up attracting no serious applications.

And even if a service were to launch, its marginal economics would mean it was driven by mainly UK channels and content, and revenues would therefore be flowing out of the Irish TV economy. We do not anticipate any commercial services on DTT that would support new Irish content production.

Regulatory intervention will not change the equation

We are sceptical that regulatory interventions could improve sufficiently the revenue and cost equation in any of the business models to generate commercial interest in the DTT licences. We note that ComReg is currently acting to regulate wholesale DTT transmission, which will place obligations on 2RN including transparency, price control and cost accounting (2RN is a wholly owned subsidiary of RTÉ and the sole wholesale provider of digital terrestrial transmission and multiplexing services). While this is welcomed by those in the sector – it will create transparency and a means of redress for users of its services – we doubt it will lead to a significant diminution in distribution costs. Among the other interventions we considered, the separation of 2RN from RTÉ could create an entity which would be able to share risk with commercial licensees in ways that its current ownership structure precludes, although it would require a significant culture change within 2RN to become more commercially minded and customer-focused.

A clearly articulated future for a public service Saorview

Saorview remains an important platform for the channels that distribute on it – delivering perhaps half of their total viewing. It also provides the means of distributing free public service TV to those who do not wish or cannot afford to subscribe to pay TV services. Therefore for RTÉ and TG4 in particular it remains an important platform to maintain reach, meet public service obligations, and contribute advertising revenues which help fund their programme production targets. Therefore they have a strong interest in promoting and developing the platform. Actions to develop the platform could include:

- RTÉ to play the role of “champion” to give leadership to the platform, particularly with regard to articulating the proposition and defining a technology roadmap.
- TV3 to be given a stronger voice in the development of the platform; it is the only ‘commercial’ channel group and therefore plays an important role on the platform to maintain the balance between public and commercial services and prevent Saorview becoming associated completely with RTÉ.
- A technology roadmap to plot out how functionality can be developed – the threat to DTT is that it increasingly looks and feels like a legacy platform as competing platforms expand their line-up of high definition channels, redesign and develop the user interface, and increase storage capacity and functionality in the set top box. An objective of the technology roadmap should be to minimise the gap between Saorview and competing offerings, for example through the use of hard disk recorders to enable households to pause and replay live TV, and to store content for later viewing, or to enable channels to “push” programming to the hard disk. The development of high definition services on the platform will also help maintain its relative appeal.

However, given the existing small number of channels on the service, high distribution costs and the technical limitations of DTT versus competing offerings, we remain pessimistic about the long term future of Saorview.

The BAI’s role

Saorview contributes to the achievement of the BAI’s strategic objective to promote plurality in Irish broadcasting. The BAI could act to support Saorview by promoting a broad definition of ‘public service’ so that channels that might wish to join the second public service multiplex provided for in the relevant legislation are able to do so. Otherwise the distinction in legislation between ‘public service’ and ‘commercial’ multiplexes could impede the development of existing Saorview services on two multiplexes.

There could also be an important role for the BAI to play to facilitate agreement between RTÉ as the platform champion, the other channels on the platform, and Government, regarding future use of the spectrum earmarked for commercial multiplexes but currently unused. In the absence of a commercial service of substance joining the platform, existing participants in Saorview, guided by the technology roadmap and their own forecasts of the likely evolution of the platform, should reach a view about DTT spectrum requirements into the future and present this to the ComReg and the Department of Communications, Energy and Natural Resources for consideration. There may be other competing uses for the spectrum but these should be considered alongside a clearly articulated future for a public service Saorview.

**This report evaluates
the prospects for a
commercial digital
terrestrial television
(DTT) service in Ireland**

1 Objectives and approach

This report has been prepared for the Broadcasting Authority of Ireland (BAI); it evaluates the prospects for a commercial digital terrestrial television (DTT) service in Ireland.

We have modelled the economics of a free TV service and a pay TV service to determine whether they are commercially viable; we have also evaluated the strategic logic of a network operator using DTT to distribute commercial TV services as part of a triple-play bundle

As part of our research we conducted interviews with major stakeholders in the sector to get their views about the viability of commercial services on DTT

We consider later in this report how policy interventions might contribute to the prospects for a commercial DTT service

1.1 Brief

Oliver & Ohlbaum Associates Limited (O&O) was selected through an open tender process to prepare a report for the Broadcasting Authority of Ireland (BAI) evaluating the prospects for a commercial digital terrestrial television (DTT) service in the Republic of Ireland (Ireland).

The BAI asked us to conduct a review of the prospects for the licensing of DTT multiplexes in Ireland, looking to the medium term as well as the short term. As part of the outcomes of the review, the BAI requested that we draw conclusions and include a range of recommendations identifying what actions might be required to create the circumstances in which the prospects for the licensing of commercial DTT might best be optimised. We were also asked to consider how a commercial DTT service might impact on public service broadcasting in Ireland and support the creation of original Irish content.

This report presents our analysis, findings and conclusions. It has been prepared for consideration by the BAI Board at its meeting on 2nd September 2013.

1.2 Approach

The analysis described in this report was conducted between June and August 2013 and comprised a series of discrete activities which are described in sections 1.2.1 to 1.2.4 below. The project was guided by input from a steering group of BAI personnel at an initial planning meeting, and then comments received at an interim presentation and in response to successive drafts of this report.

1.2.1 Literature review

O&O reviewed existing literature, legislation and policy documents in the public domain. Key among the literature sources we looked at were the national legislation creating the policy framework for DTT in Ireland, the applications submitted to the Broadcasting Commission of Ireland (BCI – the forerunner to the BAI) by bidders in 2008 to operate a commercial DTT multiplex, the deliberations by the BCI and BAI in response to those applications, and most recently the BAI's statutory five yearly Review of Public Service Broadcasting.

1.2.2 Stakeholder interviews

O&O conducted interviews with major stakeholders with an interest in the development of DTT in Ireland, including broadcasters RTÉ, TV3 and TG4, Setanta and UTV; platform operators BSkyB Ireland, UPC

and Freesat; broadcasters with an interest in distribution in Ireland, including the BBC, Channel 4, and UKTV; transmission businesses (2RN and Arqiva) and governmental bodies (the Department for Communications, Energy and Natural Resources [DCENR] and the Commission for Communications Regulation [ComReg]).

The stakeholders to whom we spoke in the course of this project are listed in the Appendix.

1.2.3 Options development and evaluation

Our analysis begins in Section 2 with a review of the development of DTT in Ireland between 2000 and analogue switch-off in 2012, focusing particularly on the process undertaken by BCI/BAI between 2008 and 2010 to licence three commercial multiplexes. Three applications were received, but each of the three applicants withdrew from the process after failing to agree terms, and the commercial multiplex licences were not issued. We draw conclusions from this earlier process based on interviews with those participating on both sides of the table in negotiations with RTÉ's transmission business – RTÉNL (now renamed 2RN) – about the pricing and provision of DTT transmission services.

In Section 3 we consider market conditions in Ireland, and identify what has changed between 2010 and today which might make it easier or harder for commercial DTT services to launch successfully. We look at macroeconomic conditions, changes that have taken place in the TV market including digital switch-over, the development of pay and free TV services, and competition in the provision of triple-play services which is driving down prices for entry level pay TV. We then look forwards towards 2020 to determine how the market might evolve over the time horizon in which fresh applications for a DTT multiplex licence would be developed and implemented.

Section 4 of this report presents three different business models for how a commercial DTT service might be positioned – as a free TV service, or an entry level pay TV service with a small premium bundle available as a buy-through, or as a bolt-on service managed by a telecoms operator wishing to use DTT to deliver broadcast TV as part of a triple-play offer to subscribers. We describe the options and evaluate them against a baseline in which the existing Saorview DTT service is developed by the PSBs but no commercial DTT multiplexes are licensed for use.

1.2.4 Policy impact

In Section 5 we present our thinking in relation to the policy interventions that could help the viability of commercial DTT services in Ireland, especially in the context of the BAI's objectives to promote public service broadcasting and originated content production in Ireland. Also in Section 5 we consider what alternative uses for the spectrum there might be if commercial DTT services were not licensed.

**Applications were invited
in 2008 to run three
commercial multiplexes –
but all three bidders
withdrew after negotiations**

2 The DTT licensing process to date

The Broadcasting Commission of Ireland (BCI – the forerunner to the BAI) initiated a process in 2008 to license three DTT multiplexes for commercial services

Three applications were received to operate the commercial multiplexes – but terms could not be agreed with any one of the bidding consortia

Saorview, a public service broadcasting service on DTT, launched in 2011 and reaches 98 per cent of the population

Analogue terrestrial transmission ceased in October 2012

2.1 Background to the licensing process in 2008

Digital Terrestrial Television (DTT) distribution in Ireland was first legislated for in the Broadcasting Act 2001, which laid the foundation for a six multiplex solution with transmission infrastructure managed by a business at arms length from RTÉ. The licensing process for the multiplexes attracted one applicant, which later withdrew, and the proposal was shelved¹.

In 2006 the Department of Communications, Marine and National Resources (DCMNR – later renamed the Department of Communications, Energy and Natural Resources – DCENR) initiated a DTT trial in Ireland operated by RTÉ Transmission Network Limited (RTÉNL)².

The Broadcast (Amendment) Act 2007 set the framework for DTT services in Ireland, and also for analogue switch-off. The Act required RTÉ to set up a public service broadcast DTT service and tasked the Broadcasting Commission of Ireland (BCI – the forerunner to the BAI) to commence a licensing process for commercial DTT services³.

2.2 The bidding process

In 2008 the BCI invited applications for licences to operate up to three national commercial multiplexes for a period of twelve years. The tender specified a coverage area of at least 90 per cent of the population, and defined a minimum technical specification for DTT receivers including MPEG4 compression (to support broadcasting in high definition) and subtitling. The BCI encouraged licensee(s) to act as a “champion” to promote the platform and cooperate with RTÉ over the lifetime of the licence. The BCI’s expectation was that the process would facilitate the provision of a minimum of twenty-four new television services.

The BCI encouraged licensees to act as a “champion” to promote the platform

Bidders were required to submit their applications on or before 2nd May 2008. The application document required applicants to set out information including: proposals for programming; financial and business plan; the transmission/multiplexing proposals and details regarding the shareholding and management of the applicant group⁴.

¹ Broadcasting Act 2001: No 4 of 2001: Irish Statute Book.

² Minister Noel Dempsey Announces Application Process Inviting Content Providers to Take Part in DTT Trial in Ireland: Department of Communications, Marine and National Resources Press Notice: 29 June 2006.

³ Broadcasting (Amendment) Act 2007: No 15 of 2007: Irish Statute Book.

⁴ BCI Announces Details of DTT Multiplex Licensing Process: Broadcasting Commission of Ireland Press Notice: 6 March 2008.

2.2.1 The applicants

Applications to operate the multiplexes were received from three consortia:

Boxer DTT Limited

The Boxer DTT consortium was a joint venture between Boxer Sweden and Communicorp Group, with technical support provided by BT Communications Ireland. Boxer is a DTT multiplex operator in Sweden which packages and markets pay TV services; it now has approximately 1.1m subscribers. Communicorp operates commercial radio services in Ireland, Eastern Europe and the Middle East. The Boxer proposal envisaged an entry-level pay TV service for Ireland priced below €10 per month, with extra channels available 'a la carte' and on a 'pay-as-you-go' basis.

Easy TV

The Easy TV consortium comprised RTÉ Commercial Enterprises Limited, the commercial arm of the public service broadcaster, and Irish Digital Holdings, a subsidiary of Liberty Global. The consortium envisaged a basic pay service of up to 35 channels priced between one third and 60 per cent cheaper than existing pay offerings in the market.

One Vision

The One Vision consortium comprised Eircom, Setanta, TV3 and Arqiva. They proposed distributing six free TV channels, and a basic pay service of 23 channels for €9.99 per month. The proposal included commitments to support and promote new Irish channels and expand coverage of Irish sport.

2.2.2 The outcome

Contracts were awarded in principle to Boxer DTT Limited in July 2008, and negotiations commenced between Boxer and BCI regarding the details of the service, and between Boxer and RTÉNL to agree a Transmission Services Contract. Negotiations did not reach a conclusion and in April 2009 Boxer DTT withdrew from the process, citing economic conditions and the difficulty it encountered in agreeing terms for transmission with RTÉNL⁵.

Following the withdrawal of the Boxer consortium, the BCI announced its intention to award the licences to One Vision, subject to the successful outcome of contract negotiations. Negotiations between One Vision and RTÉNL about transmission were not concluded and the BAI Board determined in April 2010 to withdraw from further contract negotiations with One Vision⁶.

Easy TV was invited to enter into negotiations after One Vision pulled out, but reported back to the BAI that the joint venture was no longer in existence following the award of the contracts to Boxer in 2008⁷.

The withdrawal of the Easy TV consortium brought the commercial DTT licensing process to a close. The BAI expressed disappointment that no agreement could be reached with any of the applicants; it also decided that it would not be practicable to re-activate a commercial DTT multiplex licensing process in the immediate future. Instead, the focus shifted to the launch of a public service broadcasting (PSB) multiplex in readiness for digital switch-over⁸.

2.3 Launch of Saorview and digital switchover

The PSB service, called Saorview, commenced operation in October 2010 on a trial basis serving 95 per cent of the population, and was formally launched by Pat Rabbitte TD, Minister for Communications,

⁵ BCI Issues Decision on DTT Multiplex Contracts: Broadcasting Commission of Ireland Press Notice: 21 July 2008

⁶ BCI Awards DTT Contracts to One Vision: Broadcasting Commission of Ireland Press Notice: 11 May 2009

⁷ Broadcasting Commission of Ireland: *ibid.*

⁸ BAI Statement on Conclusion of Commercial DTT Multiplex Licensing Process: Broadcasting Authority of Ireland: 5 August 2010.

Energy and Natural Resources, in May 2011⁹. Saorview currently broadcasts on a single multiplex reaching 98 per cent of the population, and offers the following channels: RTÉ One, RTÉ Two (in high definition), RTÉ News Now, RTÉ Jr, TV3, 3e, and TG4. It is anticipated that RTÉ and TG4 will launch High Definition channels on Saorview in the second half of 2013 and that a second PSB multiplex will be illuminated to carry these services.

Digital switch-over was completed in Ireland on 24th October 2012 when the analogue terrestrial TV signal was switched off. Saorview is now the primary method of receiving TV in 183,000 homes in Ireland and is a secondary means of reception in a further 370,000 homes¹⁰.

Saorview is the primary method of receiving TV in 183,000 homes

For those households unable to receive Saorview (up to 30,000 households), RTÉ launched a digital satellite service in May 2012 called Saorsat, which broadcasts a spot beam from KA-SAT focused on Ireland, avoiding overspill rights issues for RTÉ in the UK and northern Europe. RTÉ and TG4 broadcast on Saorsat. Distribution fees for the service costs RTÉ approximately €1.5m per annum¹¹. Viewers require separate dishes to access Saorsat and BSkyB Ireland, which operates from the Astra satellite in a different orbit. The take-up of Saorsat is low; anecdotally, it is the primary means of viewing in fewer than 5,000 households.

2.4 Reasons why commercial multiplexes were not licensed

The BAI identified two reasons why no commercial DTT services were licensed¹²:

2.4.1 Prevailing economic circumstances

It is clear that market conditions deteriorated in Ireland between 2008 and 2010 (and we focus on this in more detail in Section 3 below). Those close to the process to whom we spoke noted that the applications were marginal commercially to begin with, and the economic downturn meant bidders were prepared to walk away rather than enter into lengthy agreements with an uncertain payback. Key questions for the current analysis are whether or not economic conditions have improved since 2010 and, if so, do investors still have an appetite to put money into DTT services compared with five years ago?

2.4.2 The role of RTÉNL as the provider of transmission services

Several of those involved in the licence applications expressed their frustration at the negotiations with RTÉNL over DTT transmission, citing the high cost of transmission, and RTÉNL's requirement that licensees provide a security guarantee ("surety") from applicants of €20m to be paid up front. The guarantee was to be offset against transmission charges at a rate of €5.0m per annum for four years (amended in negotiations to a smaller surety with an equivalent parent company guarantee)¹³. The surety affected the cash flow projections of commercial operators by adding interest costs which were only repaid at the end of year four.

RTÉNL (now renamed 2RN) counter that the applicants were not backed by parent guarantees, and that the surety was required since – as a subsidiary of RTÉ – it cannot undertake capital projects such as building out the infrastructure to support commercial DTT distribution without first knowing how the spend will be reimbursed¹⁴.

In terms of the cost of DTT transmission, it was put to us in stakeholder interviews that 2RN's charges for DTT transmission are high – and that this is because 2RN is inefficient and is exploiting its significant market power to distort prices (it is the only provider of DTT transmission services in Ireland).

⁹ Minister Rabbitte Launches National Free to Air Digital Terrestrial Television (DTT): Department of Communications, Energy and Natural Resources: Press Notice: 26 May 2011

¹⁰ Nielsen, April 2013

¹¹ en.wikipedia.org/wiki/saorsat.

¹² Digital Terrestrial Television (DTT) Update: Broadcasting Authority of Ireland: Note to the Authority: 21 July 2010

¹³ Source: email correspondence with Mick Kehoe, 2RN.

¹⁴ Presentation by Conor Hayes (formerly Chief Financial Officer, RTÉ) to Oireachtas, 25 May 2005.

We note that ComReg is proposing to regulate digital transmission services and multiplexing in Ireland, which will be welcomed by users of 2RN's services, and we also note that ComReg has previously found that 2RN's DTT tariffs during simulcast (when terrestrial broadcasting was in both analogue and digital) did not appear unreasonable¹⁵.

2.5 DTT transmission cost comparisons

What is clear is that DTT transmission is (a) a relatively expensive means of transmission compared to digital satellite and (b) more expensive in Ireland than Freeview in the UK, which all applicants were familiar with and which therefore forms a 'benchmark' of cost.

Digital satellite distribution on Astra might entail costs of €100,000 for uplink and transponder costs of about €120,000 per Mbps on a five year term – so annual satellite transmission costs are in the order of €400,000 for a standard definition channel or €800,000 for a high definition channel¹⁶. The 2RN tariffs for distribution on Saorview are currently €1.0m and €2.4m respectively¹⁷ and, while a digital satellite footprint on Astra reaches across western Europe, Saorview serves only Ireland.

Saorview is also expensive when benchmarked against Freeview; a SD slot for distribution on Freeview might cost €5m per annum, with a footprint of 25m households in the UK and Northern Ireland (€0.2 per household reached), whereas in Ireland a SD slot on Saorview "plus" might cost a commercial channel €450,000 to reach 1.5m households (€0.3 per household reached – 50 per cent more expensive than on Freeview)¹⁸. The difference is a function of the density of respective populations and the physical infrastructure requirements to reach them.

DTT is a high cost platform and commercial services targeted at only 1.5m households will be economically marginal. More problematic is 2RN's inability to assume any commercial risk on infrastructure investment, which seems inconsistent with the provision in the tariff model that it makes a commercial return on capital invested, but without a change to RTÉ's terms of reference the requirement for a surety will remain. Regulation by ComReg will at least require that this is part of the 'reference offer' so the surety is transparent and in the public domain¹⁹.

DTT is a high cost platform and commercial services targeted at only 1.5m households will be economically marginal.

¹⁵ Correspondence from ComReg to the Minister dated 28th May 2012 in connection with the Section 130 investigation into DTT tariff prices.

¹⁶ Oliver & Ohlbaum estimates based on commercial intelligence of prices paid for transmission.

¹⁷ DTT distribution costs fall as more services join the platform, so if both Saorview PSB multiplexes were fully utilised, costs would be in the region of €450,000 and €1.0m for SD and HD respectively.

¹⁸ Oliver & Ohlbaum estimates based on commercial intelligence of prices paid for transmission.

¹⁹ Standard Form Notification of Draft Measures Under Article 7(3) of the Framework Directive: 12/77: ComReg: 12 April 2013.

The macroeconomic situation has not improved since 2008 – and there is now more competition in the TV market

3 Market conditions in Ireland

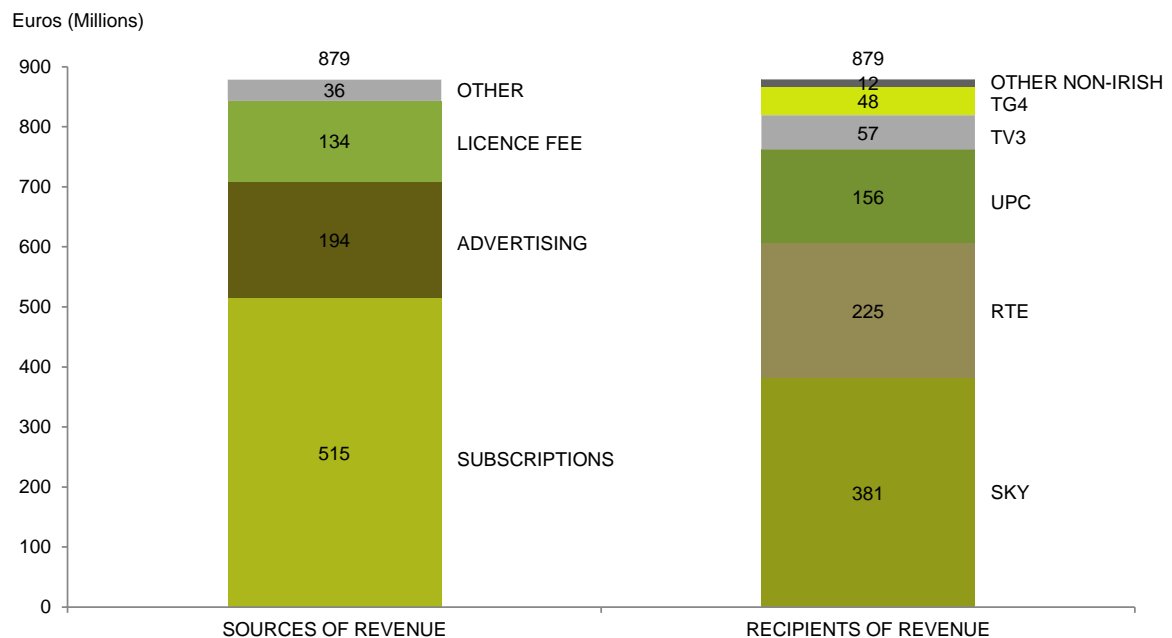
Market conditions in Ireland do not create a favourable backdrop for launching completely new commercial TV services in Ireland:

- Gross Domestic Product is forecast to be 6.7 per cent below its 2008 level at the end of 2013²⁰
- TV Advertising is 40 per cent lower in nominal terms in 2012 than it was at its peak in 2007
- The pay TV market is consolidating around bundled pay TV offers
- There is downward pressure on pay TV subscription revenues
- Free TV viewing is migrating to overspill services from the UK

Taken together, potential investors will see these as formidable obstacles to the viability of commercial DTT services within a reasonable investment time horizon.

The Irish TV market is small, with revenues in the order of €0.9bn per annum, and its proximity to the large UK market, with a shared language and similar cultural interests, means that a significant proportion of viewing is to UK licensed channels. Saorview remains the only platform in Ireland which distributes only Irish channels, and of these, TV3 has a high proportion of content that is UK-sourced via an agreement with ITV.

Figure 1: Irish Television Market: TV industry revenues, 2011



Source: Broadcaster annual reports, Nielsen, Zenith, agency estimates

Many UK-based channels distributed in Ireland now operate an Ireland-specific advertising 'opt-out' from their primary UK feed, which means they can sell their inventory to Irish advertisers and monetise their Irish audience. It is also an export of advertising spend out of the Irish TV economy, which impacts on the money that is available to fund original domestic content.

²⁰ Eurostat

The characteristics of the Irish TV market, allied to the high cost of DTT distribution, contributed to the marginal viability of commercial DTT services expressed by those close to the original bids. In the intervening time, the macro-economic background has deteriorated, consumers are chasing value, and TV distribution has coalesced around pay offerings from BSkyB Ireland and UPC, and free TV available as overspill from the UK as Freesat and Freeview²¹.

Operators proposing to invest in a new commercial DTT service will evaluate their return on investment over the lifetime of the licence (twelve years for the DTT licence applications in 2008) but in practice they would likely require their business plan to show an annual operating profit within three to five years. So for a service that might launch in say 2015, the questions would-be operators will be asking themselves is what might the macroeconomic landscape be by 2020? What will be the drivers of supply and demand in TV viewing, and what regulatory changes might affect the viability of the service?

A summary of market changes is presented in Figure 2 below and the themes identified are explored in more detail in the rest of this section.

Figure 2: Market changes since the last DTT licensing process; and potential developments to 2020

	BID PROCESS (2008-2010)	SUBSEQUENT (2010-2012)	TODAY (2013)	FUTURE (2014-2020)	
FINANCIAL OUTLOOK	<ul style="list-style-type: none"> Real disposable income per household down from €64,000 in 2008 to €53,000 in 2010 	<ul style="list-style-type: none"> Nominal GDP recovery – from €156bn in 2010 to €164bn in 2012 (CAGR = 2.5%) 	<ul style="list-style-type: none"> Household budgets still under pressure 'Soft' pay TV revenues Fall in triple-play bundled prices 	<ul style="list-style-type: none"> Modest growth in GDP and household income Little significant growth in either pay TV or advertising revenues 	
TV MARKET DYNAMICS	SUPPLY OF TV	<ul style="list-style-type: none"> UPC and BSkyB Ireland offering digital TV packages Launch of FreeSat in the UK 	<ul style="list-style-type: none"> Pay providers develop: <ul style="list-style-type: none"> range and choice in HD competitive triple-play offers 	<ul style="list-style-type: none"> BSkyB Ireland and UPC have 73% share of TV households Consumers locked into bundled offerings 	<ul style="list-style-type: none"> IPTV market entry by Eircom Will Vodafone follow suit?
	DEMAND FOR TV	<ul style="list-style-type: none"> Demand for digital TV: <ul style="list-style-type: none"> >30% of households analogue at end 2008 100k MMDS subscribers 	<ul style="list-style-type: none"> Digital switch-over completed High demand for FreeSat 	<ul style="list-style-type: none"> Consumers are chasing value: <ul style="list-style-type: none"> 45% of households take double- or triple-play bundles 250k households receive UK free TV 	<ul style="list-style-type: none"> Consumers will need strong incentives to switch between TV platforms
	DTT DISTRIBUTION	<ul style="list-style-type: none"> Three bids – all characterised by those involved as “marginal commercially” 2RN highlighted as “a block on negotiations” 	<ul style="list-style-type: none"> Saorview launched in 2011 Digital switch-over a missed opportunity 	<ul style="list-style-type: none"> Fewer than 183,000 unique DTT homes (12%) DTT a declining platform with no unique differentiator 	<ul style="list-style-type: none"> Lack of return path limits interactive and on-demand functionality
GOVERNMENT INTERVENTION	<ul style="list-style-type: none"> No sector-specific regulation of RTE/2RN monopoly in digital terrestrial transmission 	<ul style="list-style-type: none"> Minister announces completion of digital switch-over in October 2011 	<ul style="list-style-type: none"> National Broadband Plan creates potential for roll-out of a national IPTV service by 2015 	<ul style="list-style-type: none"> Proposed regulation by ComReg of digital terrestrial transmission by RTE/2RN WRC15 spectrum planning 	

Sources: CSO; ComReg; Oliver & Ohlbaum analysis

3.1 What has changed since the last bid round?

3.1.1 Macroeconomic situation

The macroeconomic outlook in Ireland deteriorated sharply in 2008 and the impact of falling Gross Domestic Product (GDP) and consumption is still being felt, with economic activity below that in 2007. The wider effect of the economic situation is the way it affects investment decisions, with respondents in our stakeholder interviews telling us that investment committees are now more cautious about committing funds to projects with long or uncertain paybacks.

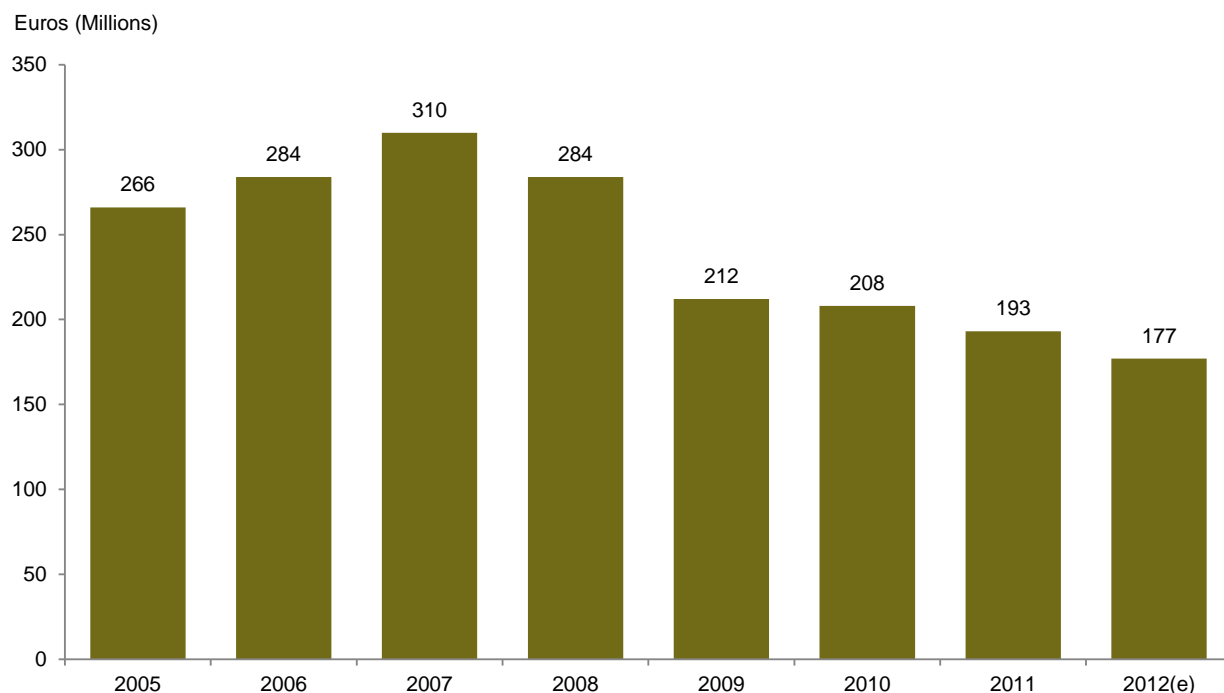
²¹ Freeview is a free TV service delivered via DTT and can be picked up by households in parts of Ireland. Freesat is a similar offering to Freeview but delivered via digital satellite with a footprint which covers the whole of Ireland.

Ireland's economy was already impacted negatively by the global financial slowdown in the first half of 2008 when the three consortia bidding for DTT commercial licences were putting together their tenders; Irish Gross Domestic Product (GDP) fell by 5.3 per cent in nominal terms in 2008, but the economic slump continued through 2009 and 2010, with GDP falling by 10 per cent in 2009 and 2.5 per cent in 2010. GDP growth has been restored from 2011 onwards but is still forecast to be 6.7 per cent below its 2008 level at the end of 2013²².

Falling GDP is reflected in falling consumption, with disposable income per person falling from €22,413 per household in 2008 to €19,318 in 2010²³. The Irish League of Credit Unions' "What's Left" tracker reported that currently 1.2m adults have less than €50 per month left to spend after paying essential bills²⁴.

As spending declines, advertising budgets have also fallen. In the TV market, net advertising revenue (NAR) a high of €310m in 2007 to €193m in 2011²⁵. We estimate that NAR fell again in 2012, to about €177m (RTÉ has just reported a 9 per cent reduction in advertising and sponsorship for the year – down €8.8m to €90.9m²⁶). Intelligence from stakeholder interviews suggests that advertising spend in 2013 is broadly flat.

Figure 3: Net Advertising Revenue: 2005-2012(e)



Source: Broadcaster annual reports, Nielsen, Zenith, agency estimates, O&O estimates

3.1.2 Supply and demand in the TV market

The main changes in the TV market between 2008 and today are the completion of digital switchover, and the resulting growth of digital free and pay TV services.

The residual analogue market which a commercial DTT service could target in 2008 no longer exists. In 2008, a commercial digital TV service entering the market could target the 30 per cent of households who

²² Eurostat

²³ Central Statistics Office

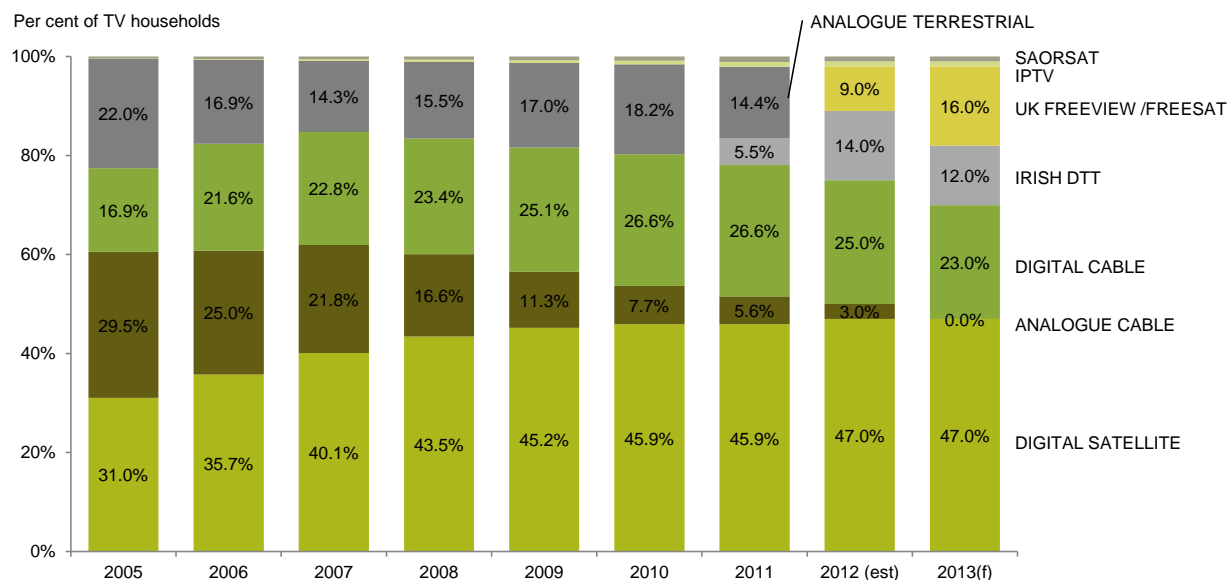
²⁴ Irish League of Credit Unions: 'What's Left' Tracker: 30th May 2013

²⁵ Oliver & Ohlbaum estimates

²⁶ RTÉ Annual Report 2012

still received analogue TV, creating a market for a new DTT service as households made upgrade decisions about how to receive digital TV. By the end of 2012, digital switchover was complete and all households have migrated to digital TV (Figure 4).

Figure 4: Irish Television Market: TV reception methods, 2005-2013



Source: Nielsen, O&O forecasts

Saorview had grown to 200,000 unique households by the end of 2012²⁷. However, the major growth in TV viewing has occurred in viewing to overspill UK free TV services – Freeview and Freesat – with more than 200,000 households receiving free TV services broadcast from the UK by the end of 2012.

Freeview was a relatively minor part of TV viewing in 2008, and Freesat only launched that year. However by the end of 2012 in excess of 150,000 households were accessing free TV via Freesat. This is a major development in the Irish market and one that impacts significantly on prospects for a new market entrant. Freesat offers more than a hundred channels without the need for a viewing card. Enterprising manufacturers and distributors have developed the ‘combi-box’ – which provides households with access to Irish PSBs on Saorview and UK free TV channels via digital satellite. For a one-off cost of less than €200, households can access a compelling channel line-up with no subscription fees.

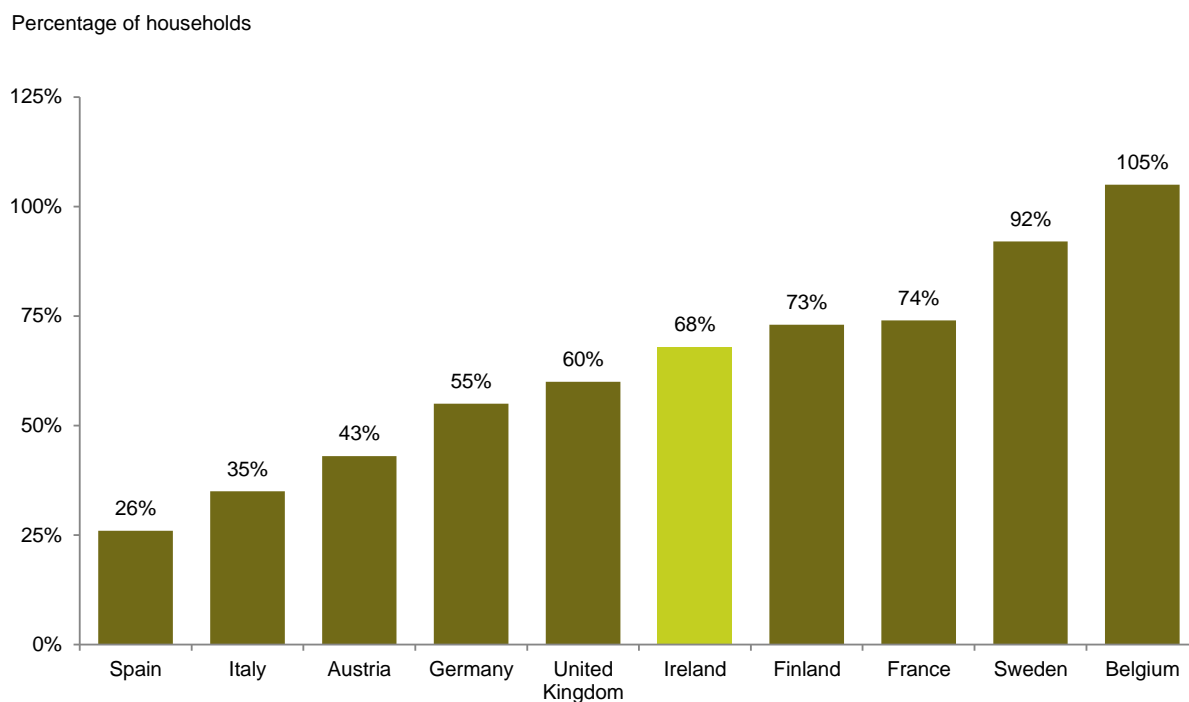
Freesat impacts significantly on prospects for a new market entrant

Ireland is characterised by high pay TV penetration, with 70 per cent of households subscribing either to digital cable services provided by UPC or digital satellite services from BSkyB Ireland. This is higher than four out of the five biggest TV markets in Europe, the exception being France with pay TV penetration of 74 per cent²⁸. Sky benefited from the move from analogue to digital, picking up over 50,000 new TV households between 2008 and 2012. Sky’s subscriber base in Ireland now stands at 739,000 households.

²⁷ Source: Nielsen

²⁸ European Audiovisual Observatory 2012 Yearbook: Figures refer to total pay TV penetration at 31 December 2011

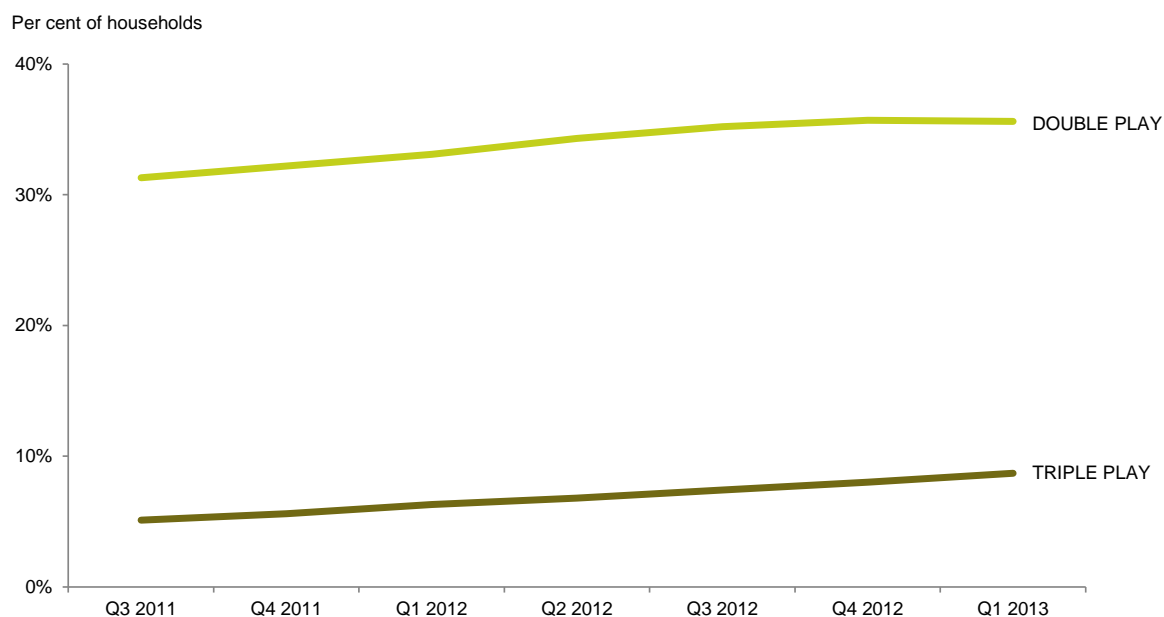
Figure 5: Pay TV penetration in selected European Markets (2011)



Source: European Audiovisual Observatory

Consumers seeking value are attracted to bundled offers, and the take-up of “triple-play” combinations of TV, phone and broadband is growing: 8.7 per cent of households now take a triple-play bundle according to ComReg, and this may be an underestimate due to incomplete data (Figure 6).

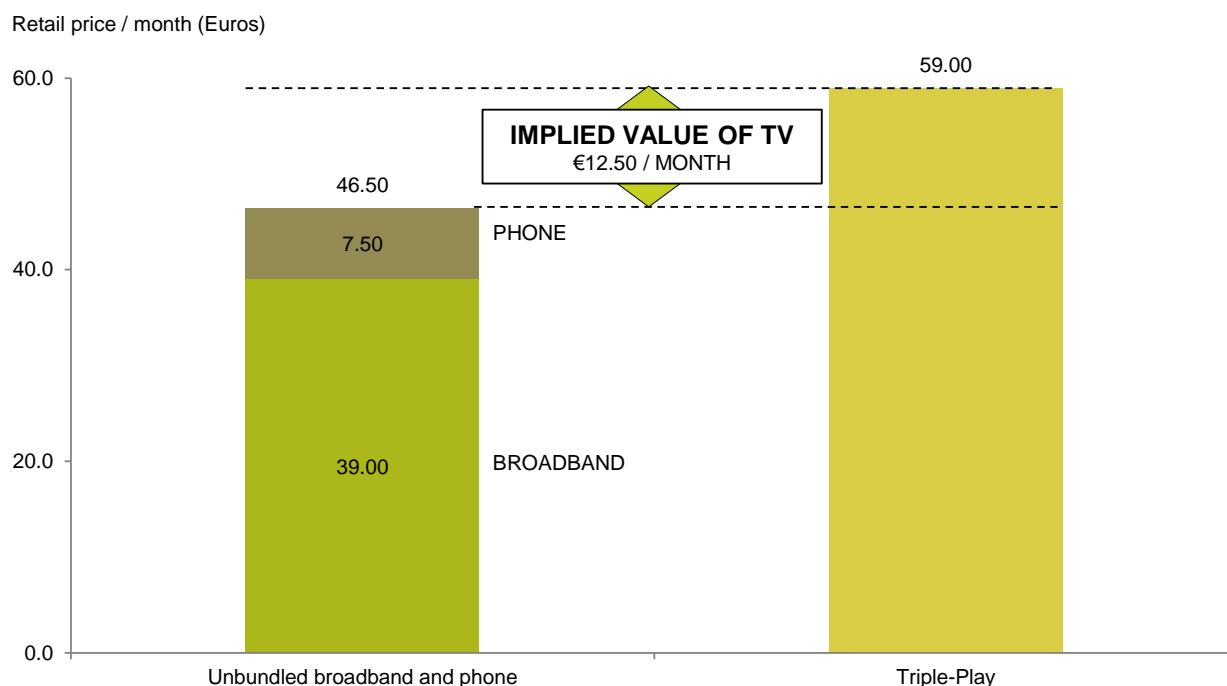
Figure 6: Take-up of triple-play services in Ireland



Source: ComReg, Irish Communications Market, Quarterly Key Data Report, Q1 2013

Competition between UPC and BSkyB Ireland (which has recently launched a triple-play offer in Ireland) is driving down triple-play prices, such that households can now secure basic pay TV for an increment in the order of €12.50 per month by buying it as part of a phone and broadband bundle (Figure 7).

Figure 7: Example incremental cost of basic pay TV in a triple-play bundle: UPC



The success of Freesat, Sky Ireland and UPC, is largely predicated on access to UK-licensed channels, including the UK PSBs and their spin-off channels, basic free TV channels and pay channels. Sky and UPC offer the provision to insert an alternate advertising stream into channels distributed on their platform targeted at the Irish market, so UK channels can now monetise their Irish audience, and this is a trend that is growing. Its effect is to remove revenues from the Irish TV market, which ultimately has implications for spending on domestic content.

3.1.3 Regulatory change

We have described in section 2 how consortia bidding for the commercial DTT multiplex licences in 2008 identified negotiations with RTÉNL on the cost of DTT transmission services as one reason why services were not launched. While digital terrestrial transmission services by RTÉNL (now 2RN) are not currently subject to specific regulation, ComReg has notified the European Commission of measures to regulate wholesale access to terrestrial broadcast transmission services and multiplexing, based on 2RN's significant market power²⁹.

We believe this move will be welcomed by commercial entities who might bid for a commercial DTT licence because it will create transparency in the pricing of the services 2RN provides via a 'reference offer'. And although the measure does not automatically lead to a reduction in the cost of DTT transmission in Ireland, licensees will have confidence that pricing is transparent and there is a formal mechanism for challenging prices.

One characteristic of 2RN's tariff that creates uncertainty for DTT licensees is the way in which the cost of transmission varies when a new service joins – because common costs are shared across all services on the platform and DTT specific costs are shared by all DTT services. The effect of this is generally to

²⁹ ComReg: *ibid*

reduce the cost of transmission for all services when a new channel joins the platform, but in the specific case where a service were to join which requires the next multiplex to be lit, costs for everyone would increase because the additional capital expenditure and operating costs of the new multiplex would be greater than the pro rata contribution of one additional service. This feature of the tariff model would tend to prevent any uncoordinated development of the platform where individual channels can join at any time.

3.2 What is the landscape likely to look like in 2020?

3.2.1 Macroeconomic situation

Our expectation is that the Irish economy will remain weak in the short to medium term, as GDP growth recovers but households reduce their levels of debt rather than increase consumption significantly. TV advertising could begin to grow, but with other competing options for advertisers to reach consumers, and with the proportion of viewing that is now to channels with advertising breakouts, we do not expect growth of more than 2.0 per cent per annum over the next 3-5 years.

Consumer spend on pay TV services is likely to remain flat or even to shrink, as consumers purchase pay TV as part of a bundled service comprising fixed and/or mobile telephony, broadband and pay TV.

3.2.2 Supply and demand in the TV market

Headline pay TV penetration is flat at about 70 per cent of households. Behind this headline, spend is actually likely to be falling as the ratio of premium to basic subscribers falls and more consumers look to buy TV services as part of a triple-play bundle. The market for triple-play is likely to get more competitive because Eircom has announced plans to provide a TV service via IPTV from this autumn.

In the free TV segment of the market, we expect Saorview to remain under pressure from UK overspill of Freesat and Freeview, and for the combi offering giving households access to Saorview and Freesat in a single box to continue to grow in popularity.

Consumers are hunting for value, and bundling is growing in importance. The advent of bundling disadvantages a new commercial DTT service in two ways; first: The switching costs of moving from one provider to another are higher once consumers take a range of services from their existing provider, and second: an operator using DTT to deliver TV services is unable also to provide broadband and telephony services that would enable it to compete in the triple play market without investing in another distribution platform – broadband for example. Hence a commercial DTT service would be competing at a disadvantage to providers in the market already offering an integrated triple-play service.

3.2.3 Regulatory change

Potential operators of a commercial DTT service will be looking closely at the World Radiocommunication Conference in 2015 (WRC-15), at which decisions about the allocation of spectrum in the 600-800MHz band occupied by DTT will be made. A key decision by WRC-15 will be to allocate spectrum in the 700MHz band to mobile services, requiring the migration of DTT services to lower frequency bands in territories where DTT currently occupies the 700MHz band. National authorities are working together to develop plans to facilitate this change, and to develop a long-term vision for broadcasting in the remainder of the UHF band.

The issues for operators of a commercial DTT service might include:

- Will the WRC-15 mandated allocation of the 700MHz band to mobile services affect the number of DTT multiplexes that can be accommodated on the remaining spectrum allocated to DTT? The Broadcasting Act 2009 determines that DTT in Ireland will comprise two public service and up to four commercial multiplexes – but will this be technically possible after spectrum in the 700MHz band has been reallocated?
- Conversely, will compromises be made in order to maintain the six multiplex solution – for example in terms of reach or interference with mobile services? These could impact on the

viability of a commercial service if they reduced the number of channels that could be transmitted, or the number of households that receive the service, or the cost to households of reception equipment (for example if larger aerials are needed or filter systems in boxes to remove interference from adjacent non-broadcast services).

- Will migration of DTT services from the 700MHz band require some or all households to purchase new larger aerials to continue to receive DTT – and will this affect the number of households who use DTT? 2RN estimates that circa 50 per cent of homes in Ireland will need to install a new antenna to continue to receive Saorview sometime between 2015 and 2020³⁰.
- Will the migration of DTT services affect the timetable for the roll-out of a commercial DTT service? With WRC-15 decisions likely to be rolled out in the period between 2015 and 2020, it could delay or add cost or uncertainty to the launch of a commercial service.

These issues could impact on a commercial DTT service, for example because they create uncertainty about what services can be supported or what technical specifications will ultimately be mandated. This in turn adds risk to an operator's plans or adds cost as it seeks to mitigate those risks .

3.2.4 The National Broadband Plan

The National Broadband Plan sets out ambitious proposals for the roll-out of high-speed internet access across Ireland by 2015³¹. The plan sets out an ambition to achieve 50 per cent of the population receiving broadband 70-100Mbps (megabits per second), a further 20-35 per cent of the population receiving 40Mbps and the remainder achieving 30Mbps by 2015. This is to be achieved by public funding of €350m to address areas outside of commercially viable high-speed broadband roll-out.

The National Broadband Plan provides the prospect of IPTV to the whole population

These proposals open up the prospect of multicast delivery of TV services via IP to the whole population within the planning horizon of a commercial DTT service. Services delivered via IP would have the advantage of being available on-demand, and providing a return-path for communication, commerce and social media interaction, making the platform a more compelling offering for consumers and potentially more revenue generative for TV operators. These services, either provided as part of a bundle of services by a broadband provider or made available 'over-the-top' by a third party such as Netflix, could provide new competition for commercial DTT services.

3.3 Conclusions to market conditions

So to respond to the questions posed at the top of this section, we would conclude that the conditions for launching new commercial TV services in Ireland remain challenging; household budgets are under pressure and pay TV revenues are characterised by those in the market as "soft". And while advertisers are returning to the market after declining spend on TV advertising for five consecutive years from 2008 onwards, spend is only two thirds the level the market reached at its peak in 2007.

Provision of TV services has consolidated, with BSkyB Ireland and UPC together supplying TV and other services to 70 per cent of households, and a further 16 per cent of households accessing overspill services from the UK, mainly via Freesat. Digital switchover, completed in October 2012, was a missed opportunity for commercial DTT services and it will be harder now to persuade households to move again to another platform, and many will be tied in to bundled offers for phone and broadband with higher switching costs.

Digital switchover was a missed opportunity for commercial DTT

Regulatory changes will clarify DTT transmission costs, but

³⁰ Email correspondence with Mick Kehoe, 2RN

³¹ Delivering a Connected Society: A National Broadband Plan for Ireland: Department of Communications, Energy and Natural Resources: August 2012

international decision-making about the spectrum utilised for future DTT provision could create uncertainty in other areas of planning.

Taken together, potential investors will see these as formidable obstacles to the viability of commercial DTT services within a reasonable investment time horizon.

3.4 European comparisons of DTT services

Established digital terrestrial services across the European Union are showing divergent growth paths. Services are growing strongly in France, Italy and (to a lesser extent) Spain, while in Germany, Finland and the UK the evidence suggests that the services are entering a period of maturity and decline.

France has 57 per cent penetration of DTT (2011); the service supports national and regional channels (the latter part of the regional network of France 3). TV Numeric provided pay TV services on the platform until the end of 2012, when it was put into receivership due to falling subscriber numbers for its pay TV service. A new service launched by Reglo TV offering Eurosport and LC1 (news) for €3.95 per month or adding TF6 (general entertainment) and Paris Premiere (films and culture) for €7.95 per month launched in 2013 backed by supermarket group E.Leclerc. The conditional access module costs €29.90 and subscriptions can be paid online or with pre-paid cards for mobile phones. The service has been operational for six months and E.Leclerc's outlets are likely to be key sales channels for the service³².

DTT has succeeded in Italy as a free TV offering, with a pay TV bundle available from Mediaset, aided by the absence of cable services in the country. DTT penetration is about 60 per cent; the service offers six general national channels, 60 other general and commercial channels, and twenty regional channels. There are four HD channels with plans for four more in HD from public service broadcaster RAI in Summer 2013³³. Pay competition comes from Sky Italia's digital satellite service.

Spain's DTT is the main source of viewing in about 70 per cent of households, although this appears to be plateauing as the platform encounters problems around channel line-up and funding. The service offers 22 PSB and commercial channels (including some pay channels) on a national basis, some of which are in HD, and combinations of regional and local-language channels depending on area³⁴. Challenges for the platform include the Government revoking licences for nine channels broadcasting on the platform, and subsidies in the order of €260m paid to broadcasters to develop the DTT platform which have been found to be illegal, and will have to be paid back.

Among those countries where DTT is a mature offering, in Finland the number of households for whom DTT is the primary reception has fallen from a high point of 37 per cent in 2009 to 28 per cent in 2011. Finland was an early switcher to digital (the analogue terrestrial signal was switched off in 2007) and the DTT service remains popular in holiday homes; there are four multiplexes broadcasting public service and commercial free TV services; pay services provided by Canal Digital and PlusTV. Competition from cable – which is widespread and offers triple-play bundles, is contributing to the decline in DTT households³⁵.

In Germany, high cable reach has kept DTT penetration low (less than 20 per cent of households). DTT markets itself as 'portable reception' to appeal to holiday-makers, but RTL's recent decision to exit the platform in 2015 due to high cost and low audience share will reduce the relative appeal of the platform. ProSiebenSat1 has extended its DTT slot to 2018. There are no channels in high definition³⁶.

In the UK, the Freeview DTT service is a mature platform which is losing appeal relative to other digital services, and which has a residual audience that is less appealing to advertisers. As pay operators BSkyB and Virgin Media have launched on demand and catch-up services, Freeview has been disadvantaged (the launch of YouView – with a scroll-back guide and access to on-demand services including pay offerings via broadband, redresses the balance somewhat; subscribers to BT and TalkTalk telephony and broadband receive YouView as a bundled offer, while free TV households have to buy a

³² Company website

³³ Local research

³⁴ Local research

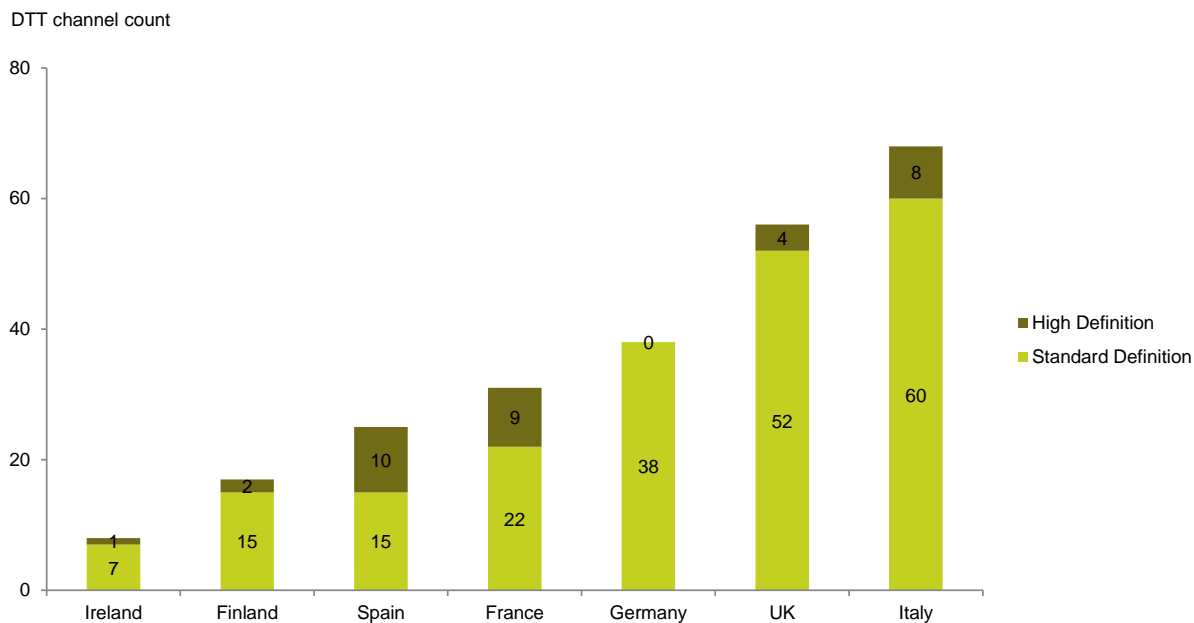
³⁵ Wikipedia

³⁶ www.dvb-t-portal.de

set top box). The proportion of households for whom Freeview is the primary means of TV reception has been flat for three years, and the demographics of the platform audience is less appealing for advertisers than other digital platforms (that is, there is a higher proportion of non-professional and manual socio-demographics)³⁷. Anecdotal evidence suggests Freeview slot prices have softened considerably from their peak in 2004-2006, when SD slots were changing hands for £5m.

Compared with DTT services in any of these markets, Saorview has a very limited channel line-up:

Figure 8: Free-to-air DTT Channel count in SD and HD: selected European examples



Excludes regional channels and pay channels

Source: Local research (Barcelona, Paris, Berlin): www.dvb-t-portal.de; Wikipedia (Finland); freeview.co.uk:

This brief survey of DTT in selected other markets indicates that DTT can struggle to compete against strong pay TV alternatives (as in France, Germany and the UK, where DTT services are showing the effects of competition) and that there may be a trajectory of maturity and decline as households migrate from terrestrial transmission to bundled offerings (UK and Finland). It also shows that many other DTT offerings are substantially wider than Saorview.

³⁷ Communications Market Report 2013: Ofcom Research Document: 1 August 2013.

We have scoped the economics of a free TV and a pay TV service to determine if they could succeed on DTT

4 Options for a commercial DTT service

We have defined three options for commercial DTT in Ireland:

- Saorview “plus”: A free TV service broadcasting 12 standard definition (SD) and two high definition (HD) channels on two commercial multiplexes.
- Saorview “pay lite”: An entry level pay TV service with a small premium bundle available as a buy-through. The service consists of 14 SD and 4 HD channels in the basic bundle and 2 SD and 4 HD sport and movie channels in the premium bundle.
- Saorview “plus” or “pay lite” operated as part of a triple-play bundle

We measure the free and pay TV options against a baseline in which Saorview remains a public service platform

We find that:

- Saorview “plus” is unlikely to deliver enough incremental advertising revenue for commercial channels to support the addition costs of DTT distribution
- Saorview “pay lite” is unlikely to be achieving an operating profit within five years of launch – and accumulated losses could be €50m by 2020
- There is no strategic logic to using Saorview as a means to deliver the broadcast element of a triple-play bundle

Overall therefore, we are pessimistic about the prospects for a commercial DTT service

4.1 Overview of the business models

We have scoped two business models for a commercial DTT service: An advertising-funded free TV service which we have called ‘Saorview “plus”’, and an entry level pay TV service with a small premium bouquet which we have called ‘Saorview “pay lite”’. We have modelled both options to evaluate whether or not they represent attractive investments for any organisation or consortium that might consider applying for DTT multiplex licences if they were re-advertised by the BAI. We compare them against a Saorview baseline.

We also explore a third business model: Could a commercial DTT service be integrated into a triple-play bundle? We have already identified how bundled broadband, telephony and TV services are gaining in popularity. Utilisation of commercial DTT to broadcast TV services could be advantageous for a fixed-line operator without an existing TV service to bundle with broadband and telephony, and would also overcome one of the major impediments facing commercial DTT, which is that it is a standalone service without the pricing advantages that bundling can bring.

Figure 9: Overview of baseline and options

BASELINE	OPTIONS	
<ul style="list-style-type: none"> • PSB mux 2 is switched on in H2 2013 – half utilised, occupied by RTE and TG4 HD channels • No new channel group joins the mux: <ul style="list-style-type: none"> - Platform remains heavily RTE biased - No widening of the content offer - No Irish film channel • Integrated PVRs in the market but no true on-demand functionality • Unique DTT households fall from 185,000 (12%) today to 88,000 (5%) in 2020 • We assume audience share on each platform remains constant to 2020 • Total TV market net advertising revenue (NAR) reaches €207m in 2020, up from €177m in 2012 (compound annual growth rate [CAGR] of 2%) 	<p>FREE TV “Saorview Plus”</p>	<ul style="list-style-type: none"> • Launch with two full commercial muxes: 12 SD and 2 HD channels • Modest central marketing budget – potential leadership role for RTE • Open-door licensing - channels apply to join the platform as they wish • No UK terrestrials limits appeal
	<p>PAY TV “Lite”</p>	<ul style="list-style-type: none"> • Entry level basic pay TV and small premium pay TV bundle • Competitive price-points to attract subscribers from existing pay TV • Launch with four full commercial muxes: <ul style="list-style-type: none"> • 14 SD and 4 HD channels as part of the basic package • 2 SD and 4 HD channels with premium sports and movies
	<p>TRIPLE PLAY</p>	<ul style="list-style-type: none"> • Pay TV “lite” proposition as above • Offered as part of a triple play (or quadruple play) bundle • Potential for synergies from broadcast and broadband distribution • Highly contingent on strategic fit for existing operator or new entrant

Source: Oliver & Ohlbaum analysis; all financial data in this report are presented in real terms at 2012 prices

4.1.1 Saorview baseline

To quantify the commercial prospects for Saorview “plus” and Saorview “pay lite” we describe first a baseline scenario in which there is no development of commercial DTT in Ireland, and Saorview remains as a platform providing public service broadcasting channels. In this option, RTÉ and TG4 launch HD offerings but no new channels launch on the platform and it begins to feel outdated and uncompetitive as competitor platforms develop the look and feel of the Electronic Programme Guide (EPG) and on-demand functionality.

4.1.2 Saorview “plus”

The first business model we envisage is a free TV service broadcasting 12 standard definition (SD) and two high definition (HD) channels on two commercial multiplexes. We have selected this arrangement of SD and HD channels on the basis that it provides what is likely to be the optimal balance between transmission costs and viewer appeal – it fully utilises two commercial multiplexes, thereby minimising transmission costs, while providing channel choice and the availability of high definition services, which we believe will be essential if Saorview “plus” is to be able to compete effectively with other platforms. However, we doubt that the platform economics will support the creation of new channels, and the channel line-up is likely therefore to consist of existing channels already broadcasting on other platforms, so there is no strong content differentiator.

The service is transmitted using DVB-T standards so there are no upgrade costs for existing Saorview households. The service has a small central marketing and management function which holds the licence, with direction provided by a Board comprising representatives of the channels on the platform, possibly with a leadership role for RTÉ as the broadcaster that has most to gain if Saorview cements its position as a popular free TV service.

4.1.3 Saorview “pay lite”

The second business model we explore is an entry level pay TV service with a small premium bundle available as a buy-through. The service consists of 14 SD and 4 HD channels in the basic bundle and 2 SD and 4 HD sport and movie channels in the premium bundle. The service utilises four commercial multiplexes to create space for basic and premium services, but the channel line-up is still limited

compared with other existing pay offerings in the market, and price points would be at the low end of existing TV offerings because of the relatively restricted channel line-up.

We envisage that the service is managed and marketed by an entity that has taken on substantial risk and is likely therefore to be highly experienced in the operation of pay TV services. Subscribing households would require a new set top box with conditional access functionality to view the service.

4.1.4 “plus” or “pay lite” as part of a triple-play bundle

In our third business model, we explore whether DTT has the potential to support the delivery of the TV component of a triple-play offering by a broadband network operator or wholesale broadband reseller that does not own a TV distribution platform – so for example Eircom or Vodafone in Ireland. In this scenario, the network operator uses DTT to broadcast free TV content and distributes paid-for content via its broadband network using multicasting protocols.

4.1.5 Why these options?

We have shaped the Saorview “plus” and Saorview “pay lite” options to provide what we believe to be credible business models for market entry. They target the two main revenue sources available to TV services – advertising revenue and household pay TV subscriptions – and we have configured the options so that they have some chance of being competitive with existing services free and pay TV services in a crowded and competitive market place.

We have scoped the options to be consistent with the capacity and technical limitations of DTT transmission:

- Each DTT multiplex can carry 23Mbps of useable capacity – approximately equivalent to 10 standard definition or 4 high definition channels. This limits the number of channels that can be distributed.
- DTT does not support two way transmission – so interactive services for example are not feasible without an alternative different return path (explored in the triple-play option)
- The DTT set top box specification requires that receivers have a common interface slot to support a CAM (Conditional Access Module) but there is no conditional access functionality in those boxes already in the market

We believe that the optimal channel count for Saorview “plus” free TV service is to utilise fully two commercial multiplexes – any more and costs increase because a third commercial multiplex would need to be switched on, necessitating significant incremental investment by 2RN to build out the multiplex. Conversely, we believe that the Saorview “pay lite” service needs to use all four commercial multiplexes to create a channel line-up that is sufficiently broad to compete against existing pay offerings. In both services we believe that some availability of high definition services is essential.

4.2 Presentation of the options

The prospects for a commercial DTT service can be simplified to: “Will the service make money?” To answer this question, we will present the Saorview baseline and the two business models (Saorview “plus” and Saorview “pay lite”) in terms of what we believe they will look like in their fifth full year of operation – that is, in 2020. Our rationale for this approach is that investors will not put commercial funding into projects unless they are showing an operating profit after five years, and hence a 2020 “snapshot” sets up a yes/no answer to our question above.

In the case of the Saorview “plus” service, the question “will the service make money?” will be posed by channels considering joining the service. For Saorview “pay lite” the pay TV operator will answer the question by examining the trade-offs between content spend, price points, and subscriber numbers. The pay service is likely to make substantial losses in its early years due to the need to cover transmission costs and content spend, while front-loading marketing and subscriber acquisition costs. The peak investment required to reach breakeven and the interest costs of borrowing are identified. Essentially, Saorview “pay lite” would need to be generating sufficient profit by 2020 to meet its interest payments and

start repaying the outstanding capital, while also commencing payments of regular annual post-tax dividends to investors.

The likelihood that a telecoms operator applies for a licence for a DTT multiplex to deliver TV services as part of a triple-play strategy is impacted by the economic concerns described above, but also by strategic “fit” between its network objectives and the commercial opportunities that a DTT licence creates. We evaluate these issues qualitatively in section 4.7.

4.3 Common assumptions

To produce a consistent set of outputs for each of the options, we have defined a set of economic and market forecasts which remain constant in each of the options. We also leave constant the licence costs, the duration of the licence term and the launch date of the services. The transmission costs are estimated based on the 2RN Saorview Service Cost Calculator, which 2RN shared with us.

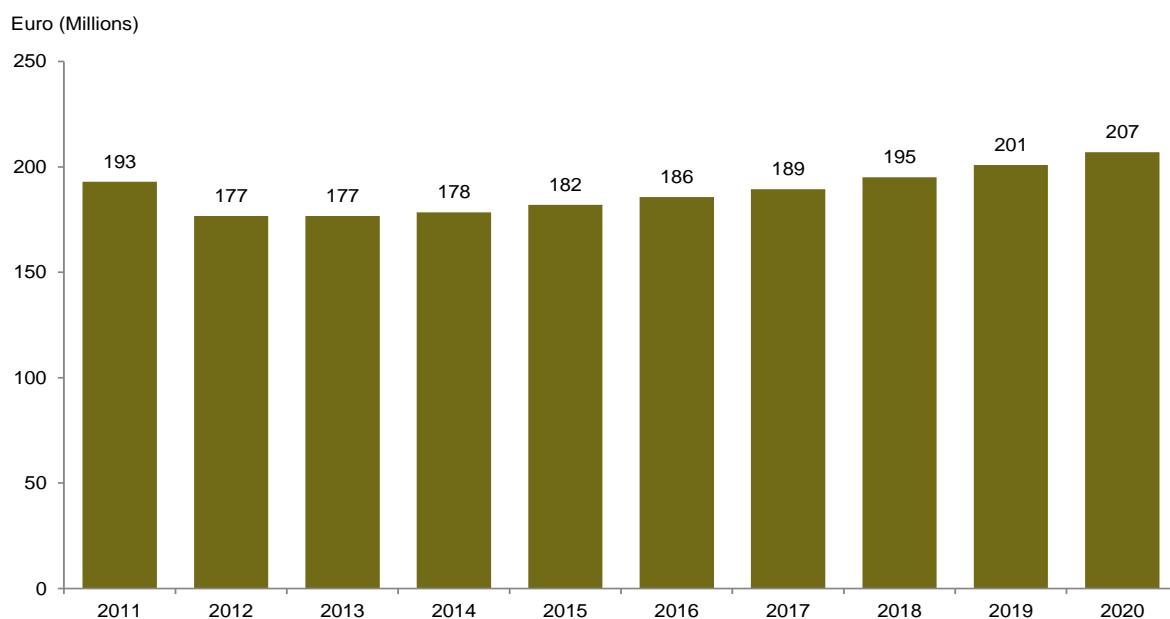
4.3.1 Economy

We assume that economic indicators such as GDP growth, household income and disposable income remain flat in real terms to 2020, so there is no prospect of a commercial service benefiting from growth in an expanding market. The number of households is assumed to increase from 1.6m in 2013 to 1.8m in 2020.

4.3.2 TV Market

Total revenues entering the TV market remain flat to 2020; spend on pay TV is expected to fall in real terms as more households take advantage of bundled offerings and competition between BSkyB Ireland, UPC and Eircom drives down prices. Our advertising revenue forecast assumes relatively slow growth from 2014 onwards, so NAR might only be in the range €200m-€210m in real terms by 2020, up from our estimate of €177m in 2012 (Figure 10). We further assume that total NAR in 2020 – and the premium to the market rate of advertising cost per thousand impacts (CPT) at which the terrestrial PSBs can sell their advertising – remains constant in the base case and in each option.

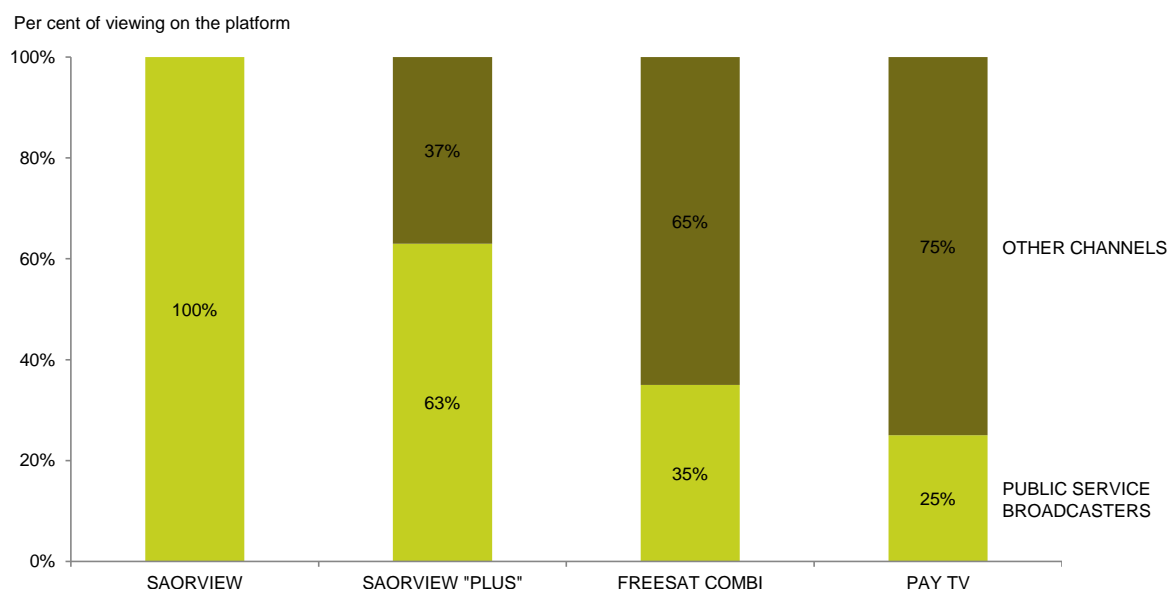
Figure 10: Net Advertising Revenue forecast: 2011-2020



Source: Oliver & Ohlbaum estimates

To simplify the analysis, we hold audience share constant on each platform, with the result that overall audience share of any one channel or channel group changes in response to households shifting between platforms. So for example a household acquiring pay TV takes on the viewing habits of a “pay TV household”. This reflects what happens as viewers find they have more channel choice, and means that declining viewing on Saorview is detrimental to the channels on the platform because they get higher share on Saorview than any other platform. Our analysis draws on audience share data supplied by Nielsen to create a realistic picture of viewing by platform.

Figure 11: Audience share assumptions by platform



Source: Oliver & Ohlbaum forecasts

4.3.3 DTT cost base

The cost of DTT transmission and the lack of transparency was identified as an issue by the consortia who engaged in negotiations with RTÉNL (2RN) during the previous licensing round for commercial DTT. In order to make sure we understand the DTT transmission tariff model we held two meetings with 2RN, had a series of phone conversations with 2RN executives, and were provided with a copy of 2RN's Saorview Service Cost Calculator to help us to determine the likely transmission costs of the commercial DTT service options.

The tariff 2RN charges for DTT services covers investment in common infrastructure – the land, masts and buildings at the 60 transmission sites operated by 2RN – specific DTT equipment at each site, and multiplexing and headend distribution equipment. DTT-specific costs increase stepwise as each mux is lit, with a significant increase in investment if services are launched on multiplexes 5 and 6. The main operational cost is power needs of approximately €300,000 per annum per multiplex.

Common infrastructure costs are amortised across all users – including non-DTT uses – while the DTT specific costs are amortised based on DTT bandwidth use. We have assumed in both commercial DTT options that multiplex capacity is fully utilised, which maximises the cost efficiency of the platform, but in a limited number of circumstances (for example where a new multiplex were switched on with only one service occupying it), costs for all services on the DTT platform could increase marginally.

The transmission costs we use in our modelling are set out in Table 1. These are based on outputs from the Saorview Service Cost Calculator, although both the Saorview “plus” and Saorview “pay lite” options required us to make additional estimates:

Table 1: DTT transmission costs

	Baseline	Saorview “plus”	Saorview “pay lite”
Multiplexes	2	4	6
Occupancy	64%	100%	100%
Annual tariff	€10.65m	€12.50m	€16.00m
DTT transmission cost per SD channel	€1.02m	€0.33m	€0.28m
DTT transmission cost per HD channel	€2.19m	€0.80m	€0.68m

Source: 2RN (baseline), Oliver & Ohlbaum estimates based on 2RN Tariff cost calculator (Saorview “plus” and “pay lite”) Assumptions:SD at 2.6Mbps, HD at 6Mbps

These costs are on a per annum basis and we assume they remain constant in real terms.

In the previous licensing round, RTÉNL required a security guarantee (“surety”) from applicants of €20m to be paid up front and offset against transmission charges at a rate of €5.0m per annum for four years. We expect that 2RN will require a surety as part of future negotiations for transmission and this is an additional cost consideration for applicants (it will form part of the “reference offer” required under new regulation by ComReg of 2RN’s transmission business).

4.3.4 Licence terms and launch date

Our analysis of the options assumes that the BAI invites applications for a licence to operate a commercial DTT service in the first Quarter of 2014 and negotiations with the successful applicant are concluded by the end of the third Quarter of 2014. We assume that the service launches in calendar year 2015 and that 2016 is the first full year of operation. The licence is assumed to last for a period of 12 years (consistent with the previous licensing round) with an option to renew.

The licence is assumed to provide the operator with the necessary permissions to launch the “plus” or “pay lite” services summarised in section 4.1 above. We envisage also that the annual cost of the licence payable by the licensee to the BAI is not significant and does not increase through the term of the licence, and that reporting costs to demonstrate adherence to the licence are not material.

4.4 Saorview baseline

4.4.1 Summary of the service

In our baseline, we assume that Saorview remains a platform skewed to RTÉ and TG4, with no new channel groups joining the platform to 2020. We do however assume that the second public service multiplex is switched on in the short to medium term, supporting new HD channels from RTÉ and TG4, (TV3 appears not to have an appetite for distributing additional channels on the platform so we assume no new offerings from the group on DTT). Even with the augmented channel line-up, Saorview lacks appeal compared with the content available on pay TV and the Freesat line-up.

We anticipate that Saorview set top boxes with personal video recorder (PVR) functionality via the addition of hard disk storage will become widely available, providing a form of catch-up service, and could also capture downloaded content for later on-demand viewing if spare DTT capacity on the multiplex were

utilised for this purpose. However, the absence of conditional access will mean that no paid-for services are provided on Saorview.

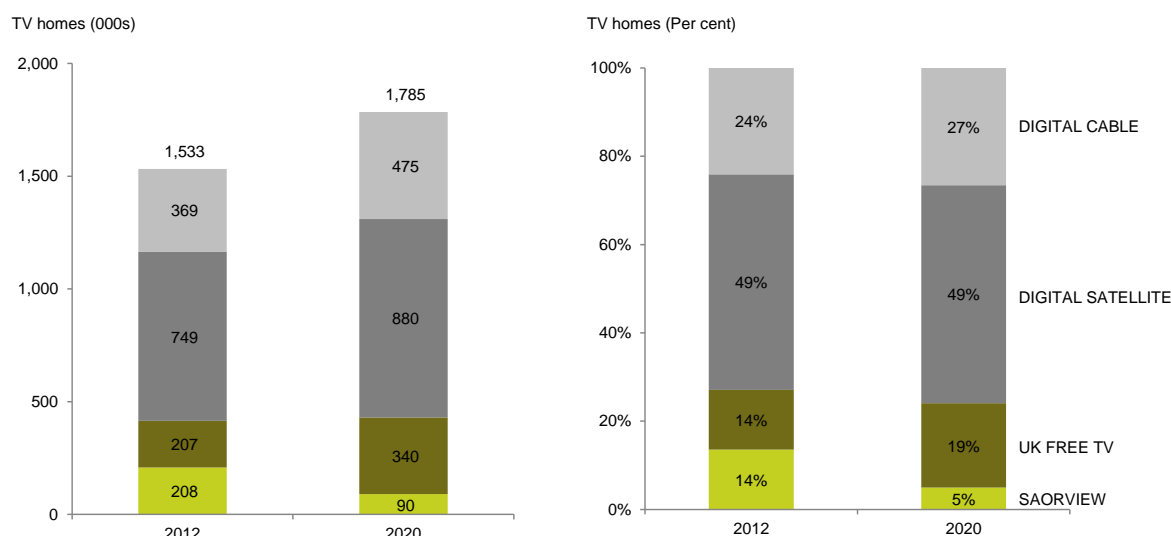
Overall, the services available via Saorview will be limited compared with competing pay TV offerings, which will deliver increasing integration of broadcast and on-demand services, and interactive functionality via the return-path.

Limited content and no availability of on-demand content for time-shifted viewing significantly devalue the appeal of Saorview. Without other actions to improve the appeal of the platform, we believe that the number of unique households for whom Saorview is the primary means of viewing could decline substantially – from approximately 180,000 households at end 2012 to 90,000 in 2020. The proportion of households using Saorview for viewing of RTÉ (i.e. including homes accessing UK free TV via Freesat and Freeview) would decline in the base case from 28 per cent of TV homes at end 2012 to 24 per cent in 2020; in numerical terms this represents a slight increase from 415,000 homes at end 2012 to 430,000 in 2020 (Figure 12).

Without actions to improve the appeal of the platform, the number of Saorview households could decline substantially by 2020

Saorview would account for approximately 38 per cent of all viewing to RTÉ and TG4 in 2020, compared with approximately 50 per cent today. The audience share of RTÉ and TG4 would decline by about four percentage points from about 31 per cent today to approximately 27 per cent in 2020 as viewing in multichannel homes shifted to other channels.

Figure 12: Base case TV households by platform: 2012(a) and 2020(e)



Source: Oliver & Source: Nielsen (December 2012 actual); Oliver & Ohlbaum analysis

4.4.2 Economics of the service in 2020

Our advertising revenue forecast assumes NAR might only be in the range €200m-€210m in real terms by 2020. Given this growth forecast, if the share of TV households in which DTT is the primary means of reception drops to 5 per cent in 2020, and Saorview is the means to receive PSB channels in a further 19 per cent of households who also watch Freesat using a combi box, Saorview may earn the channels about €50m in NAR (€20m in unique Saorview homes and a further €30m in homes using a combi-box to access Saorview and UK Freesat channels). Multiplexing and transmission on two multiplexes is estimated by 2RN at €10.65m per annum, or more than 20 per cent of incremental channel revenues.

4.4.3 Conclusions

There is a public service rationale for the continuation of Saorview on DTT even under the conditions of falling unique households set out in our baseline. In the baseline, almost one in four households – 90,000 for whom Saorview is the only service they receive and 340,000 who also receive Freesat – still rely on DTT for their access to public service broadcasting by RTÉ and TG4. At this level of penetration, the platform is still profitable – that is, incremental revenues exceed incremental cost. However, Saorview would have the feel of a legacy platform, with a residual base of unique households who are content with limited channel choice – or unable to afford other options – and this group may be relatively unattractive to advertisers. Hence there could be downward pressure on CPTs for those channels who rely on Saorview for a significant proportion of the viewing they receive.

4.5 Commercial free TV – Saorview “plus”

4.5.1 Summary of the service

Saorview “plus” would be a commercially focused free TV service occupying two multiplexes, delivering 12 channels in standard definition and two in high definition. An integrated EPG would list the channels underneath the Saorview line-up described in the base case.

A lack of unique content is likely to limit the appeal of the platform. We do not believe that the reach offered by Saorview “plus” would be sufficient to support the creation of new TV channels – instead we believe it is likely to attract existing channels – for example those available currently on Freesat – which could introduce an advertising opt-out to their feed for the Ireland market and monetise the Saorview “plus” audience. Any channels currently distributing on pay TV and receiving a sub fee per household from platform operators would be highly unlikely to change their business model and broadcast free to air on the platform given the limited reach, and advertising revenue would be insufficient to replace pay TV revenue streams.

A major ‘gap’ in the channel line-up is the main UK terrestrial channels – the BBC, Channel 4, and Five. We would not anticipate these channels joining a free TV service because to do so would undermine their sub fee deals with BSkyB Ireland and UPC³⁸. The absence of these channels, which form a significant slice of viewing on those platforms where they are distributed, does reduce the appeal of Saorview “plus”, particularly in comparison with Freesat, on which they broadcast “in the clear” and are therefore available in Ireland without a subscription.

The service would also include up to ten commercial radio stations.

We have assumed that Saorview “plus” is broadcast using DVB-T standards, so that existing Saorview households do not need to upgrade their set top box (a box retune may be required). With MPEG4 compression, DVB-T can support high definition services but is not fully efficient in the use of the spectrum; the trade-off keeps consumer costs to a minimum. We estimate that those households new to Saorview would face a one-off cost in the order of €60-€100 for a set top box and roof-top aerial.

We envisage that the service has a small central marketing and management function which holds the licence, and is responsible for: operations, finances and marketing, and for liaison with 2RN (for example on multiplexing services, distribution and transmission, quality of service, etc.). This is a “thin” management function providing coordination and a basic level of marketing; the channels themselves assume responsibility for payment of fees to 2RN for distribution and transmission on the DTT platform. Leadership of the Saorview “plus” service would be provided by a Board comprising representatives of the channels on the platform (including the public service broadcasters on the PSB multiplexes), possibly with a leadership or “champion” role for RTÉ as the broadcaster that has most to gain if Saorview cements its position as a popular free TV service.

³⁸ ITV, the other major UK broadcaster, supplies content to TV3 and hence does not distribute in Ireland.

4.5.2 Challenges to the delivery of the service

The specification of the service is a trade-off between managing costs for consumers while creating an opportunity that has appeal for channel-owners. This creates challenges:

- At the consumer end, Saorview “plus” is likely to compete mainly with Freesat. Currently, households who choose Freesat are likely also to use Saorview to watch RTÉ, TV3 and TG4; we would expect this pattern of viewing to continue. Freesat households with Saorview will be able to access Saorview “plus” immediately the service launches but in these households the channels on Saorview “plus” are going to be competing with the 100+ channels on Freesat, which erodes much of the audience share benefit of being prominent on the DTT platform.
- The channel line-up is likely to be drawn from existing UK-based channels. To monetise the audience these channels would need to operate an advertising breakout so that commercials targeting Irish viewers can be inserted into the broadcast stream. While this service is provided seamlessly by BSkyB Ireland and UPC, it would need to be managed by a third party for those free TV channels who do not already operate a separate advertising feed for the Ireland market.
- Could Saorview “plus” encourage a new domestic channel to launch? It would be a differentiator for the platform, but the economics suggest that it is highly unlikely that any commercial entity would create a new channel to distribute solely on the platform; any channel manager would wish to secure as wide distribution as possible – i.e. to be available on the other main platforms as well. So Saorview “plus” does not define whether or not such a channel is viable.
- The proposal that the service is directed by a committee comprising representatives of channels on the platform helps to keep costs under control, but may be at the expense of clear strategy and effective coordination.
- Low marketing spend limits the ability of the platform to attract new households.

4.5.3 Economics of the service in 2020

The key commercial question therefore is whether channels can make enough incremental revenue to cover distribution costs on the Saorview “plus” platform?

We have assumed that the Saorview “plus” service appeals to existing Saorview viewers and to homes with Freesat. Our assumption of penetration of Saorview “plus” is that it is the primary means of TV reception in about 270,000 unique homes by 2020. This is at the upper end of what might reasonably be expected; we have assumed that there is no further decline in Saorview penetration from 2015 onwards and that 100,000 households that previously used to view a combination of Saorview and Freesat channels choose in future to watch only Saorview “plus”.

The commercial channels on Saorview “plus” gain viewing from channels on Freesat, and the PSB channels on Saorview also benefit because the growth in the number of households using the platform as the primary means of reception is greater than the audience share loss caused by there being greater channel-choice on the platform.

We believe that the impact on net advertising revenue will be modest for both existing Saorview channels and new commercial channels. The PSBs may gain something in the order of €4.0m in NAR (3 per cent) in 2020 versus the base case, because they gain audience share on the Saorview “plus” service compared with their performance in households with a combi-box who watch the PSBs on Saorview and UK free TV on Freesat. (

Will channels make enough incremental revenue to support the additional costs of transmission on DTT?

Figure 11 on page 32 shows our assumption of how audience share changes as households migrate from one platform to another). However, there is a counter-effect because there are more advertising impacts in the market as a result of two effects:

- A proportion of viewing which was previously to Freesat channels migrates to the PSBs on Saorview “plus” – these are “new” impacts that were not previously monetised

- Viewing to the commercial channels on Saorview “plus” also creates new advertising inventory – because the channels are likely to be UK-based channels that previously did not have an Irish advertising feed

These effects could increase the supply of advertising impacts in the market by 15 per cent, which would put downward pressure on the cost of TV advertising. We have assumed that the CPT smaller channels can command falls as a result – but that RTÉ and TV3 are able to maintain their CPT due to the superior reach they offer across all platforms.

After taking these effects into account, we estimate that commercial channels might make perhaps €12m per annum in incremental NAR compared with the base case (net of the cost of breaking out the advertising stream to sell Ireland specific inventory) assuming they achieve a 37 per cent audience share on the Saorview “plus” platform.

A wider effect of the monetisation of impacts on Saorview “plus” by UK-based channels is that NAR is removed from the Irish TV economy. This is an existing trend but one which Saorview “plus” may exacerbate because of its likely reliance on UK channels.

We have assumed a small new revenue flow for the commercial broadcasters of margins on shopping and chat channels – of €1.0m in 2020. These channels use TV as a shop window for goods and services, and the channel operators make margins on goods sold and on premium rate phone lines and text messaging used by viewers to communicate with the channel.

The major outward flow of funds is in transmission fees to 2RN. The cost of distribution across four multiplexes is estimated by 2RN to be €12.7m per annum, up from €10.7m for the two PSB multiplexes alone (we have kept this constant to 2020), but this cost is now shared across the services distributed on all four multiplexes. The existing channels on the public service multiplex – RTÉ, TV3 and TG4 – benefit significantly when the commercial multiplexes are switched on; their transmission costs reduce by more than 50 per cent. Under 2RN’s current DTT tariffs the PSBs would pay €5.0m and the additional 14 commercial channels on the enlarged platform would share transmission costs of €7.7m. The €2.0m extra to 2RN covers its additional costs of operating the two new multiplexes, depreciation on the investment required to ready the new multiplexes, and a provision for operating profit.

We have allocated a budget of €3.5m per annum to the central management and marketing function. It is assumed that this is not a profit-making function and the resource is allocated €2.0m in opex and €1.5m in marketing spend. This we have split as €1.0m payable by the PSBs and €2.5m by the commercial channels, reflecting the channel count on the platform.

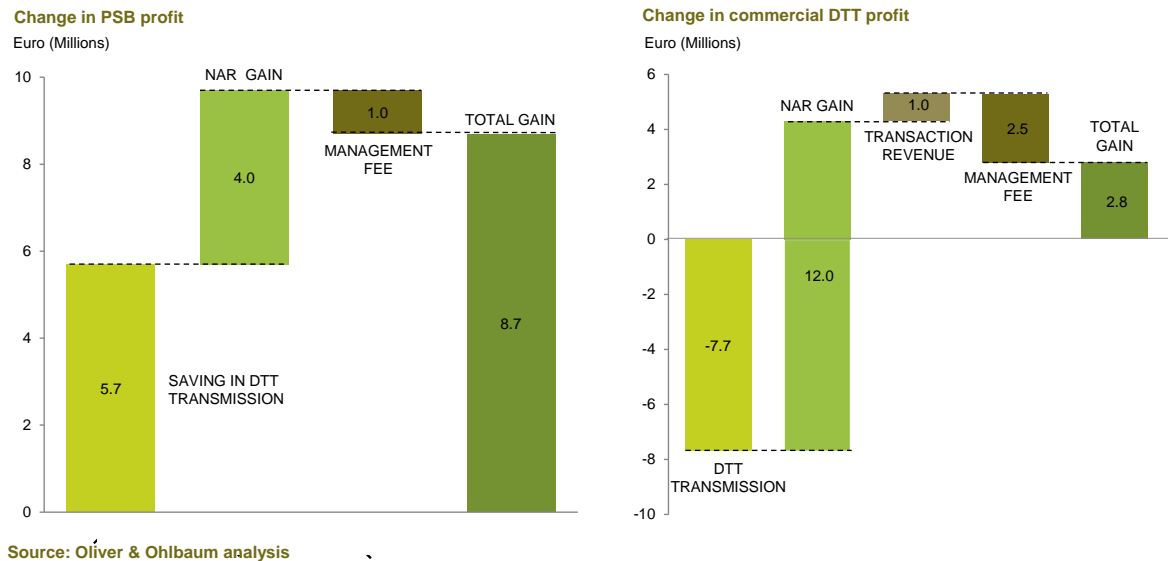
We forecast that the channels on Saorview “plus” make incremental profit in 2020 of €11.5m – made up of €17.0m extra revenue (€16.0m NAR for the channels on the platform compared with the base case and new transaction revenues adding €1.0m) minus €3.5m in management and marketing costs and the increase of €2.0m in transmission costs. However the revenues and costs are not evenly shared between the PSB channels and the commercial channels on the platform, as shown in [Figure 13](#).

The channels on the existing public service multiplexes make a small NAR gain of about €4.0m; but the larger benefit is the saving of €5.7m in shared DTT transmission costs. Even after paying out their share of management fees for the service – say €1.0m – the public service channels make a gain of about €8.7m in 2020.

At the same time the commercial channels face extra costs of €10.2m per annum in 2020 – consisting of transmission costs of €7.7m and management fees of €2.5m. They make about €12m in NAR and €1.0m in transaction revenues, so their gain is less than €3.0m in total.

From our conversations with channels owners and managers, we believe that this small revenue gain would be insufficient to persuade channels to distribute on Saorview “plus”; the requirement to pay an upfront surety to 2RN as a guarantee of future payments for transmission has a significant negative impact on cash flow which would increase costs to channels and erode potential revenue gains. Channel managers deciding whether to join the platform would also be concerned that the service would not achieve high penetration if other channels decided that the project was marginal and chose not to distribute, so a form of gaming could develop in which no one joins.

Figure 13: Gains and losses on Saorview “plus” versus the baseline (2020)



An alternative allocation of transmission costs, in which the commercial channels pay only the incremental costs of distribution on the commercial multiplexes rather than the full shared costs of the common infrastructure, would likely be challenged as amounting to indirect state aid (licence fee funding for RTÉ mandated by the State would be being used to “subsidise” commercial channels on the platform).

The result of this analysis is that while the proposal is advantageous for the PSBs, it does not appear viable for the commercial players who might be considering joining the platform.

4.5.4 Could channels join the platform on an ad hoc basis?

We have been asked to contribute our views about whether Saorview “plus” could operate on an unmanaged basis, with commercial channels securing distribution on the platform as and when they judged it commercially viable, and the regulatory authority (BAI) operating an open-door policy to licensing. There are a number of issues associated with this approach:

- It is not clear who the licensee of the digital terrestrial service would be if there were not a single coordinating entity holding the licence; there would be no commercial incentive for an organisation to pay the security guarantee required by 2RN to underwrite the build-out a commercial multiplex in the expectation that channels might join at a future date, and it is not clear that other bodies – for example 2RN or RTÉ or BAI itself – would wish (or be able under their terms of reference) to take on this obligation.
- DTT transmission costs increase each time a new multiplex is illuminated, and costs then decline as capacity is utilised. The optimal way to manage this cost curve is to coordinate the channels joining the platform such that each multiplex is fully utilised when it is switched on. If channels were to apply to join the platform in an uncoordinated way, it would be more difficult to create the critical mass of channels that would make switching on a new multiplex economically viable.
- Saorview “plus” will need to promote a clear proposition and to be a distinctive offering to compete in a crowded market. The open-door licensing policy would make it difficult to create a proposition to be promoted to consumers when there was uncertainty about which channels might join the service.
- Channels themselves would be unlikely to join the platform on an ad hoc basis; distribution on the platform is expensive, and our analysis suggests that the incremental reach is insufficient to make the extra cost of transmission clearly revenue positive. Without a proposal from a central coordinating and management function about the benefits of the platform, joining up may never become a priority for channels.

For these reasons we do not believe an uncoordinated approach to licensing is a viable option for Saorview “plus”.

4.5.5 Conclusions

We have specified Saorview “plus” as a free TV service optimising the use of two commercial multiplexes and with sufficient appeal to attract up to 100,000 households from Freesat by 2020, while retaining existing Saorview households from 2015 onwards. Even achieving this, the service is only marginally profitable in 2020 for the commercial channels on the platform because transmission, management, and marketing costs erode the uplift in advertising revenue the channels would receive from distributing on the platform. Existing channels on the public service multiplexes would benefit both in terms of advertising revenue uplift and a saving of almost €6m per annum in transmission fees to 2RN because the common infrastructure and DTT specific costs of transmission would be shared across a higher number of channels. However, without a stronger rationale for commercial channels to join Saorview “plus”, the PSBs would be unable to unlock the savings in transmission costs they get by sharing DTT distribution with a commercial service.

4.6 Commercial pay TV – Saorview “pay lite”

4.6.1 Summary of the service

We envisage Saorview “pay lite” as an entry level pay TV service, with a competitive retail price point to encourage existing Saorview households to upgrade and also to capture households ‘spinning down’ from higher priced pay TV offerings from BSkyB Ireland or UPC. The basic bundle would consist of 14 SD and 4 HD channels, including the UK terrestrial channels such as BBC One and Channel 4, basic thematic pay channels such as Gold, Discovery, Eurosport, quiz channels and shopping channels. There would also be space for ten commercial radio stations. The service would have a small premium pay TV bouquet of 2 SD and 4 HD channels providing sport and movies.

Our assumption is that the service launches on four commercial multiplexes, thereby fully utilising the DTT capacity allocated to commercial services. The service would be managed and promoted by a pay TV operator which incurs significant risk in guaranteeing payments to 2RN for transmission and sub fee payments to channels in the pay bundle. There are also likely to be high subscriber acquisition and marketing costs, including subsidising set-top-box and aerial installation (we have modelled this at a conservative cost of €80 per new subscribing household).

Any household upgrading from Saorview would need a new set-top-box because existing boxes in the market do not contain conditional access functionality to protect content, and we assume that the operator would wish to migrate to DVB-T2 to increase the services and functionality on the platform.

4.6.2 Challenges to the delivery of the service

Securing an appealing channel line-up will be essential; Saorview “pay lite” should be able to negotiate commercial terms with channel brands to create a strong line-up, but potentially at higher cost per household than existing platform operators pay because it is a smaller platform with less leverage. Channel owners would therefore have power to negotiate higher sub fee rates than they can obtain from the established platforms, thereby pushing content acquisition costs up for Saorview “pay lite”, which would be competing at a cost disadvantage to existing pay TV services.

However the service may have difficulties securing premium channels at a wholesale price which makes the premium bundle viable – because content owners will resist making premium content available to be retailed at lower price points than the content is currently available at. BSkyB may also have a strategic interest in limiting access to Sky Sports and Movies to reduce the appeal of the new platform and obstruct the growth of a potential competitor.

Pricing of the service will be critical to its ability to compete in a market where there is already 70 per cent penetration of pay TV and provision has consolidated around existing pay operators; the challenge will be how to price at a point where there is strong uptake of the service but enough income to support an appealing channel line-up. BSkyB Ireland's entry level pay TV package costs €27 per month, which sets a ceiling on the real terms retail price point, and offers a wider channel choice (35 SD channels and 200+ free TV channels) than Saorview "pay lite"; the entry level BSkyB Ireland offering is also likely to have more HD services by 2020 than the 4 HD channels in the basic Saorview "pay lite" offering.

Pricing of the service will be critical in a market where there is already 70 per cent pay TV penetration

Even after getting pricing right, competitors may tweak their own prices temporarily to undermine the appeal of the new service – for example by offering half price deals for new subscribers, or reducing churn to the new service by offering package upgrades to keep existing subscribers.

An area where the service is unable to compete is in the provision of triple-play services; these multi-service offerings are pushing down the price of entry level pay TV by bundling it with broadband and telephony. We have noted already in section 3 that competition is driving down prices and that the uptake of triple-play is growing as consumers seek out value offers. Saorview "pay lite" will be competing against operators for subscribers from free TV, and trying to migrate subscribers from existing pay TV offers; triple-play offers will make pay TV look inexpensive and make it more difficult for consumers to switch to the new service once they are tied in to a bundled service..

4.6.3 Economics of the service in 2020

The pay TV operator is the primary risk taker in the Saorview "pay lite" service – guaranteeing transmission fees to 2RN while also entering agreements with channel operators to pay sub fees per household reached for content. We can envisage the service making significant losses in the early years to fund marketing and subscriber acquisition such that by 2020 the service could be carrying €50m of accumulated debt. Given this risk profile, we believe investors would reasonably expect a dividend flow and commencement of repayment of debts by year five (2020).

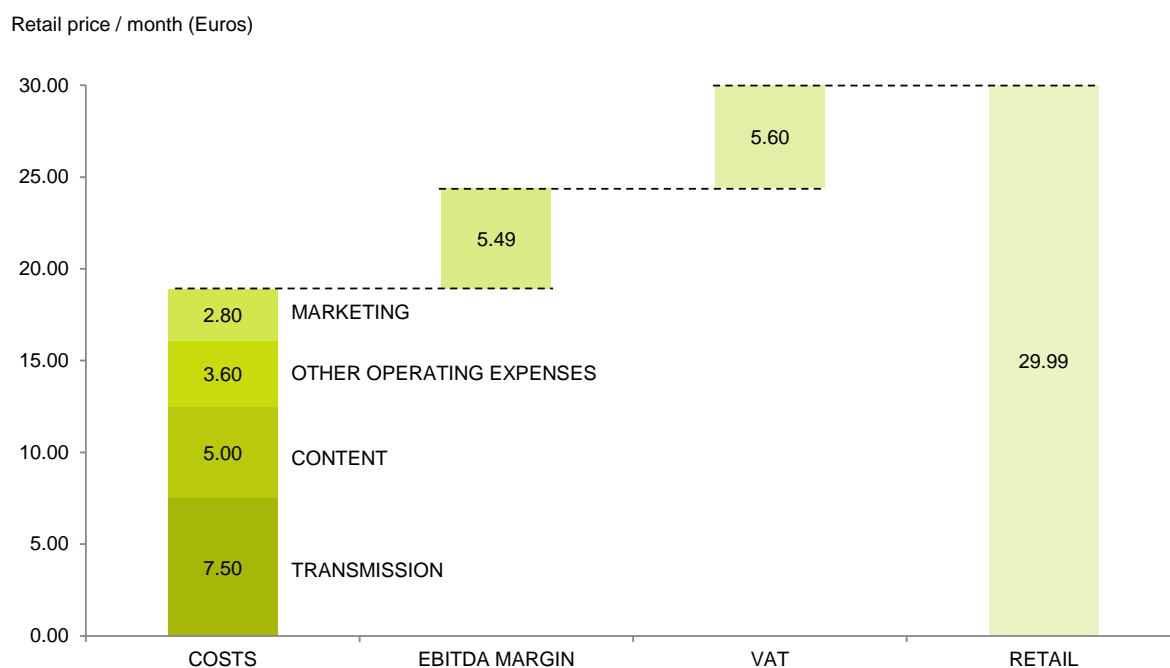
A realistic subscriber acquisition target for Saorview "pay lite" would be to attract 150,000 basic tier subscribers by 2020, of whom 50,000 also buy the premium package. With this number of subscribers, we have estimated that the cost base of the service would be about €42m in 2020. The largest cost element would be content spend (estimated €18m, split roughly 50:50 between basic and premium channel fees); transmission costs could be €13.5m per annum for four commercial multiplexes³⁹. A proportion of transmission costs could be claimed back by the operator from channels which pay to occupy a slot in the basic pay tier – shopping channels for example; we have assumed four SD channels paying combined €1.1m per annum for carriage.

Marketing spend could still be running at about €3.5m per annum, and the set-top-box and installation subsidy to get customers to sign up to the service could account for another €1.6m of cost. Subscriber management, administrative expenses and technical services such as conditional access and EPG management might add another €6.4m in total.

To achieve operating break-even at 150,000 subscribers given this cost base, Saorview "pay lite" would need to charge subscribers a retail price of €23.27 per month (€18.92 ex VAT). To begin payment of dividends to investors and repayment of accumulated losses, the service would need to generate earnings before interest, tax, depreciation and amortisation (EBITDA) in the region of €10m per annum by 2020. This would mean a retail price of €29.99 per month (see Figure 14).

³⁹ 2RN could not be precise about the tariff because to move to a six multiplex service (two PSB, four commercial) would require additional capital investment which has not been quantified. Our assumption of €13.5m assumes total transmission costs for six multiplexes of €16m per annum, with the PSBs occupying two multiplexes and paying €2.5m for their share of the capacity.

Figure 14: Retail price point to achieve profitability with 150,000 basic subscribers



Source: Oliver & Ohlbaum analysis

We have identified already from a comparison of existing entry level pay TV offerings in the market that a retail price point above €27 per month is going to be uncompetitive. To achieve an EBITDA profit of €10m in 2020 at a price point of €27 (€20.79 net of VAT) would require 175,000 basic tier subscribers.

To be really competitive – such that the service gets any traction in the market – would probably require a retail price closer to €17.99 (€13.85 per month net of VAT). At this price, and to achieve €10m target EBITDA at the retail price of €17.99, would require a subscriber base of about 325,000 subscribers in 2020, or almost one in five TV households in Ireland. We think this a stretch.

4.6.4 Conclusions

Saorview “pay lite” needs to offer a broad choice of channels at a competitive price point, and to draw subscribers from existing pay platforms to achieve profitability. We feel it unlikely to succeed either at a retail price of €28 or by attracting 20 per cent of TV households in Ireland to a service priced at €17.99. Given these challenges, we doubt that investors would be able to justify bankrolling a project would could have peak cumulative losses in the order of €50m in 2020, driven by high content spend to create an appealing offer, and high marketing and subscriber acquisition costs in the early years to build the subscriber base.

4.7 Commercial bundling – Saorview “triple-play”

Having reviewed commercial free TV and pay TV services, and concluding that neither is viable as a standalone service, it is worth reflecting whether a commercial DTT licence would appeal to a telecoms operator to integrate DTT into a phone and broadband offering to create a triple-play bundle. The advantages of bundling for an operator which might drive this strategic decision include:

- Maintenance of competitive positioning against cable – which offers integrated triple-play
- Revenue uplift – an increase in average revenue per customer
- Better margin – because shared expenses such as marketing and subscriber management are amortised across more services
- A reduction in churn (the percentage of current subscribers leaving the service in a period) because the costs of switching increase the more services a household buys from one operator

For the consumer, bundling brings advantages of cheaper prices compared with purchasing all three services separately, and therefore appeals to households whose budgets are under pressure.

BT's BT Vision service (soon to be renamed BT TV) is an example of a telecoms provider using DTT as part of a triple-play offering. BT Vision integrates in a single set top box a DTT receiver, broadband IPTV decoder and personal video recorder, so consumers can access broadcast TV via digital terrestrial transmission, and premium pay TV services and on-demand content via the broadband network. A home Wi-Fi network provides wireless access to high speed internet and an Ethernet connection for IPTV.

Could an operator in Ireland use this hybrid approach to deliver TV services? Eircom, which provides broadband access to approximately 385,000 households in Ireland, has no TV services currently, although it has announced plans to launch an IPTV service in the autumn consisting of IPTV, on-demand video, catch-up TV and social media access via TV. Eircom's National Fibre Network reaches 300,000 homes and businesses in Ireland to whom IPTV services can be marketed. Vodafone could also potentially launch IPTV to its 165,000 fixed broadband subscribers, and might therefore see synergies with a DTT solution for broadcast TV. The roll-out of high speed internet proposed in the National Broadband Plan could also enable an independent operator to provide a service "over the top" – that is, using the unmediated internet to distribute content.

The strategic logic is not clear-cut; a network operator has invested heavily in its own infrastructure, and requires a rate of return on that investment – diverting funds and management time to develop a DTT service could undermine that objective. And marketing of a hybrid service is not unproblematic, because the footprints of the respective services may not be fully coincident – because neither commercial broadband networks nor the DTT service cover 100 per cent of the population. In these circumstances the network operator will promote its services within its network reach, and not in areas beyond the network footprint which might be in DTT reach. Finally, the operator will tend to favour distribution via its closed network (streaming and multicast) rather than developing conditional access functionality for DTT.

The strategic logic for a broadband network operator to use DTT for broadcast is not clear-cut

The BT Vision solution makes strategic sense for BT to build a triple-play offering because Freeview in the UK is an established platform serving 11m homes, so BT is not tasked with building the platform or creating the channel line-up to make the offer appealing. Instead, BT has focused on working with other parties to develop common catch-up and on-demand consumer propositions for Freeview (launched as YouView) to maintain the freshness of the platform, while building its live sports and on-demand content rights portfolio for distribution via its fibre network. The rationale does not exist in Ireland, where Saorview is at an earlier stage in its development.

Policy interventions are unlikely to be on a scale sufficient to mitigate the challenges facing a commercial DTT operator

5 Policy implications of our findings

ComReg has notified the European Commission that it intends to regulate DTT transmission costs charged by 2RN, which will provide transparency of DTT transmission costs and a mechanism for parties to challenge costs.

There are other policy options which could also help to optimise conditions for a commercial DTT service:

- Mandate 2RN to support a managed transmission service, which could facilitate competition in the pricing of DTT transmission services
- Sale of 2RN so it becomes an independent entity and is no longer bound by RTÉ's risk criteria, meaning it might take a more commercial approach to risk-sharing
- Give BAI formal powers to mediate in negotiations between 2RN and commercial service providers
- Remove the distinction between PSB and commercial multiplexes so the platform can grow organically

More radically, cost savings could be made by ceasing DTT distribution and focusing on a digital satellite solution for PSB and commercial services, although rights issues and the cost to consumers of new reception equipment are significant impediments to realising this strategy.

5.1 Interventions to facilitate a commercial DTT service

The preceding analysis strongly suggests that business models for commercial services on DTT are unlikely to be viable given current constraints. We now consider whether intervention by policy makers could change the equation for commercial operators – for example by removing cost or other impediments to the development of commercial services.

5.1.1 Regulating the cost of digital terrestrial transmission

ComReg's regulation of 2RN's prices for digital terrestrial transmission was welcomed by many in the sector to whom we spoke. It is likely to benefit 2RN as well because it will settle the question of whether or not 2RN is abusing market power and engaged in anticompetitive behaviour as part of a vertically integrated business comprising content production, channel management, distribution and transmission. Whether the move will result in a decrease in the cost of DTT transmission – and whether any decrease would be sufficient to alter the economics of a commercial DTT service – we doubt: A halving of transmission costs would not bring the commercial channels in the Saorview “plus” service into profit, and the Saorview “pay lite” service would still need to sign up 300,000 subscribers by 2020 at €17.99 to achieve a reasonable return for the operator.

5.1.2 Other options for 2RN

The cost base for DTT transmission reflects high initial investment in common infrastructure (land, masts, and buildings) and DTT transmission equipment to build out the network (€65m of spend by 2RN to facilitate DTT, with further on-going investment, for example most recently to increase the mast height at four major sites). We have explored whether this capital investment could be written down, which would substantially reduce transmission tariffs going forwards, but have concluded that this might well be anticompetitive.

Commercial DTT services might be encouraged if 2RN adopted a positive approach to a Managed Transmission Service (MTS) – or were mandated to facilitate it. MTS is an agreement whereby the

commercial entity puts its own transmission equipment into a network provider's buildings at most locations to manage the transmission themselves – it is roughly analogous to local loop unbundling in the telecoms industry. This could facilitate competition in the pricing of transmission services.

Independence would free 2RN to share risk in commercial ventures as a genuine partner

A radical proposal would be to divest RTÉ of 2RN via a trade sale or flotation of the business. We understand from 2RN that this was considered as part of a State review of assets, but was not pursued at the time (and if prospects for a commercial DTT service are becoming more remote, the value of 2RN is impaired as a result). However, a separation from RTÉ would enable 2RN to pursue a singular strategy and could enable it to share risk in commercial ventures as a genuine partner rather than as a supplier. This would require a significant culture change within 2RN to become more commercially minded and customer-focused.

5.1.3 Giving BAI powers to mediate

At the end of the previous, unsuccessful licensing process, the BAI requested that in any future licensing process it be given powers to engage formally with RTÉNL and to exercise or to invoke a statutory mediation process in the event of disagreement on the terms of the transmission arrangements between RTÉNL and any future successful applicant⁴⁰.

It was noted in our stakeholder interviews that there was no party with a locus to drive forward negotiations between applicants and 2RN (or RTÉNL as it was then). However 2RN's position with regard to the surety – that it cannot take on investment obligations without the spend being covered – does not feel like an issue that can be negotiated away. The need to find €20m up front to be set against future transmission costs was a major issue for applicants and significantly affected cash flow projections, but the fact that prospects for commercial DTT services have deteriorated (and the risk of a default is therefore greater) will tend to increase 2RN's resolve in this issue.

5.1.4 Removing the distinction between PSB and commercial multiplexes

The relevant legislation makes provision for two PSB multiplexes licensed to RTÉ and up to four commercial multiplexes. In certain circumstances this distinction can be unhelpful – for example if the second PSB multiplex were switched on partially full, and subsequently a single commercial service wanted to join the platform; in this instance the legislation could be interpreted to mean that a third multiplex should be lit for the single service while capacity is still unused on the PSB multiplex. In practice therefore, the single commercial service is unlikely to join if it were to incur a share of the full costs of the commercial multiplex, but if it did join the other PSBs would see an increase in their transmission costs because they were now sharing the additional costs of a new multiplex amortised across only one additional service. We believe it would be in all participants' interests to recognise that the platform benefits from more channel choice and a broad definition of PSB should be applied to permit commercial services to join the PSB multiplex (perhaps on a temporary or trial basis) and a new multiplex is switched on only when the existing capacity is exhausted.

5.2 An alternative proposal: a digital satellite solution

DTT is an expensive distribution platform, and Saorsat appears to be an expensive solution to achieving 100 per cent PSB reach in those areas where Saorview is not available terrestrially. From a strictly economic perspective, the costs of Astra transponder capacity and smaller aerial requirement mean that the most cost effective solution could be to mandate the PSBs to broadcast in the clear on the Astra digital satellite and to shut both Saorview and Saorsat. This would realise recurring transmission cost savings of approximately €10m per

A cost-effective solution could be to mandate the PSBs to broadcast in the clear on Astra

⁴⁰ Broadcasting Authority of Ireland: *ibid*

annum in Saorview and €1.5m in Saorsat. There would be one-off costs for the remaining 180,000 Saorview households to upgrade to satellite reception (at €150 for the purchase and installation of reception equipment, this would total about €30m).

There are three strong counter-arguments:

- PSBs do not buy rights to distribute content outside of Ireland – and were the larger footprint of Astra factored into content negotiations, the savings in terrestrial transmission would rapidly be offset by higher rights costs.
- the State has an interest in maintaining a distribution platform “of last resort” that is not controlled by overseas interests.
- there is a significant political hurdle to requiring consumers to incur significant additional costs to swap TV platform so soon after digital switchover.

5.3 Alternative spectrum uses

If commercial DTT services are not viable, the spectrum in the UHF band earmarked for DTT is under-utilised; alternative uses for the spectrum, which might include the extension or enhancement of Saorview services, alternative mobile services, white spaces devices, or programme making and special events (PMSE), are likely to be contingent on decisions made by the World Radiocommunication Conference in 2015. Decisions by this group may in practice constrain alternative uses for the spectrum if harmonisation means commercially available transmission and reception devices are aligned with the bandwidth usages defined by WRC-15.

**Overall, we are pessimistic
about the prospects for
commercial services on
DTT in Ireland**

6 Our conclusions

We are doubtful a commercial DTT service in Ireland is viable:

- Market conditions for launching commercial DTT services have not improved since the last licencing process
- Our modelling suggests that:
 - A commercial free TV service delivers insufficient additional advertising revenue to be viable
 - A commercial pay TV service would not be competitive
- We do not see a strategic fit for a telecoms provider
- Regulatory intervention can help, but it is unlikely to change investment decisions

Our overall recommendation to the BAI is not to initiate a new licensing process.

6.1 Conclusions to this report

Our conclusions, based on the analysis contained in this report and validated through stakeholder interviews with players in the sector and likely participants in a future licensing round for the DTT multiplex licences, are:

6.1.1 The BAI should not initiate a new licensing process

Our overall conclusion is that the market in Ireland will not support a commercial DTT proposition and that the BAI should not therefore proceed with a new licensing process.

The licensing process is not cost free – it involves BAI personnel in a lengthy evaluation of complex bid documents. The process is also costly for participants – for example each of the bidders in the previous process we spoke to told us they committed six figure sums to the preparation of bid documents and the process was a significant commitment in terms of management time. There is also potentially reputational risk for the BAI in attempting a fresh licensing process for commercial DTT that could end up attracting no serious applications.

6.1.2 Other conclusions

6.1.2.1 Without enhancements to channel line-up and services, Saorview will steadily lose appeal

Even with a second public service multiplex, Saorview offers limited channel choice; is too closely associated with RTÉ, and competing basic pay TV offerings and free TV overspill from the UK (Freesat and Freeview) offer more channel choice and a greater range of HD channels. There is no strategy driving the platform forwards and increasingly it does not meet customer expectations in areas such as on-demand functionality, interactive services and the availability of hard disk recording in set top boxes.

Growth of the DTT platform is good for the PSBs because they enjoy high audience share on the platform. We believe that even if additional commercial services were added, they would still get higher audience share than they achieve in digital satellite and digital cable multichannel homes. However at the moment Saorview does not provide a compelling multichannel proposition for viewers.

Without leadership (a role which RTÉ could play), we believe the platform may have a residual penetration of fewer than 100,000 unique households by 2020 (although it will continue to be more widely used for viewing on second sets, and for watching the PSB channels in Freesat homes).

6.1.2.2 Conditions for launching commercial DTT services have not improved since the last licencing process

The conditions for launching new commercial TV services in Ireland remain challenging. Ireland has suffered a substantial economic slowdown – and GDP is still below where it was in 2008. Household budgets remain under pressure and pay TV revenues are characterised by those in the market as “soft”. Consumers are looking for value in purchases including communications and entertainment, resulting in bundled offerings of broadband, pay TV and telephony gaining traction in the market, with an incremental cost of around €12.50 per month for pay TV. Advertisers are returning to the market after declining spend on TV advertising for five consecutive years from 2008 onwards, and spend is expected to be stable this year at about €190m – which is only two thirds the level the market reached at its peak in 2007.

The TV market has consolidated, with BSkyB Ireland and UPC together supplying TV and other services to 70 per cent of households, and a further 16 per cent of households accessing overspill services from the UK, mainly via Freesat. Digital switchover, which was completed in October 2012, was a missed opportunity for commercial DTT services because it provided impetus for consumers to switch TV platform – in 2008 fully 30 per cent of households were still watching analogue TV and these 450,000 households have subsequently made decisions about how they receive digital TV without a commercial DTT service as one of their choices. It will be harder now to persuade them to move again to another platform, and many will be tied in to bundled offers for phone and broadband with higher switching costs.

6.1.2.3 A commercial free TV service delivers insufficient additional advertising revenue to be viable

Our modelling of a free TV service leads us to conclude that the audience uplift and consequent increase in advertising revenue to channels joining the platform would be insufficient to cover the incremental cost of transmission. The commercial service would be good news for the PSBs, who would benefit from a fall in transmission costs and growth in the number of households for whom Saorview “plus” is the primary means of TV viewing, but the poor financial case for commercial channels makes the service unviable.

6.1.2.4 A commercial pay TV service would not be competitive

A commercial pay TV service seeking to enter a market where 70 per cent of households already have pay TV faces a conundrum – how to price to be competitive yet make a return on a smaller subscriber base than the existing players in the market. We believe that the service might realistically target 150,000 subscribers by 2020, but would have accumulated €50m of losses in doing so; to achieve a reasonable return for investors it would need to be charging €29.99 per month, which will not be competitive when BSkyB Ireland’s entry point for pay TV is €27 and a bundled offering from UPC is available for an increment of €12.50. At a genuinely competitive retail price point of about €17.99 per month, Saorview “pay lite” would need 320,000 subscribers in 2020, or almost one in five TV households in Ireland, which we consider a highly unrealistic objective.

6.1.2.5 There is not a strategic fit for a telecoms provider

We do not believe that it makes sense strategically for a network operator to build a triple-play offer around DTT. The operator will tend to favour distribution via its own closed network to achieve a rate of return on its infrastructure investments, rather than spend to build a DTT service, which would be necessary in the case of Saorview.

6.1.2.6 DTT will not be a driver of original Irish content

It is not realistic to suppose that licensing of commercial services on DTT will result in a step-change in spending on original Irish content or bring new content producers into the market.

Original Irish content production for TV is driven primarily by RTÉ (€166.5m of spending on indigenous TV programming on RTÉ One and RTÉ Two in 2012⁴¹). In our base case, Saorview loses relative appeal and it is the primary platform in fewer households in 2020 than today; resulting in loss of audience share for RTÉ and the other channels on Saorview as viewers migrate to platforms with more channel choice (as presented in

⁴¹ RTÉ: Today, Tomorrow, Together: Annual Report and Group Financial Statements, 2012.

Figure 11). We expect viewing to RTÉ channels to be lower in 2020 than today in all scenarios; the resulting reduction in advertising inventory would probably limit RTÉ revenue growth from advertising to about 3.0 per cent in real terms to 2020 (even after taking account of the premiums advertisers pay for the high reach of RTÉ One in particular). Hence there will not be significant funds in the base case for additional content production.

If Saorview “plus” were to succeed in the way we have set out in Section 4.1.2, RTÉ audience and advertising revenue would be higher in 2020 than in our base case, and about 10 per cent higher in real terms than in 2012, which would help support RTÉ’s continued production of original Irish content. However the trend towards advertising opt-outs will increase the movement of advertising spend out of Ireland, reducing the available resources for investment in content by other channels.

If Saorview “pay lite” were to succeed, RTÉ’s audience share in DTT pay TV homes would be similar to that in BSkyB Ireland or UPC homes, but it would retain 100 per cent share in those remaining DTT homes without pay TV (Saorview base homes). Overall this would impact negatively on net advertising revenue, although again it would be an advance on the base case.

It could be that the BAI looks at alternative ways of generating and distributing originated content such as broadband distribution and short-form content to bring new ideas and talent into Irish content production alongside established funding sources such as RTÉ licence fee, the Irish Film Board and tax reliefs on production. The National Broadband Plan will create a high speed distribution network that could deliver high definition content on demand to households for viewing on PC, tablets or TV.

6.1.2.7 Regulatory intervention can help, but it is unlikely to change investment decisions

We are sceptical that regulatory interventions could improve sufficiently the revenue and cost equation in any of the business models to generate commercial interest in the DTT licences. We note that ComReg is currently acting to regulate 2RN, which will place obligations on the business including transparency, price control and cost accounting (2RN is a wholly owned subsidiary of RTÉ and the sole wholesale provider of digital terrestrial transmission and multiplexing services). While this is welcomed by those in the sector – it will create transparency and a means of redress for users of its services – we doubt it will lead to a significant diminution in distribution costs. Among the other interventions we considered, the separation of 2RN from RTÉ could create an entity which would be able to share risk with commercial licensees in ways which its current ownership structure precludes, although this would also require a significant culture change within 2RN to become more commercially minded and customer-focused.

6.2 A clearly articulated future for a public service Saorview

Saorview remains an important platform for the channels that distribute on it – delivering perhaps half of their total viewing. It also provides the means of distributing free public service TV to those who do not wish or cannot afford to subscribe to pay TV services. Therefore for RTÉ and TG4 in particular it remains an important platform to maintain reach, meet public service obligations, and earn the advertising revenues which help fund their programme production targets. Therefore they have a strong interest in promoting and developing the platform. Actions to develop the platform could include:

- RTÉ to play the role of “champion” to give leadership to the platform, particularly with regard to articulating the proposition and defining a technology roadmap.
- TV3 to be given a stronger voice in the development of the platform; it is the only ‘commercial’ channel group and therefore plays an important role on the platform to maintain the balance between public and commercial services and prevent Saorview becoming associated completely with RTÉ.
- A technology roadmap to plot out how functionality can be developed – the threat to DTT is that it increasingly looks and feels like a legacy platform as competing platforms expand their line-up of high definition channels, redesign and develop the user interface, and increase storage capacity and functionality in the set top box. An objective of the technology roadmap should be to minimise the gap between Saorview and competing offerings, for example through the use of hard disk recorders to enable households to pause and replay live TV, and to store content for later viewing, or to enable channels to “push” programming to the hard disk. The development of high definition services on the platform will also help maintain its relative appeal.

6.3 The BAI's role

Saorview contributes to the achievement of the BAI's strategic objective to promote plurality in Irish broadcasting. The BAI could act to support Saorview by promoting a broad definition of 'public service' so that channels that might wish to join the second public service multiplex provided for in the relevant legislation are able to do so. Otherwise the distinction in legislation between 'public service' and 'commercial' multiplexes could impede the development of existing Saorview services on two multiplexes.

There could also be an important role for the BAI to play to facilitate agreement between RTÉ as the platform champion, the other channels on the platform, and Government, regarding future use of the spectrum earmarked for commercial multiplexes but currently unused. In the absence of a commercial service of substance joining the platform, existing participants in Saorview, guided by the technology roadmap and their own forecasts of the likely evolution of the platform, should reach a view about DTT spectrum requirements into the future and present this to the ComReg and the Department of Communications, Energy and Natural Resources for consideration. There may be other competing uses for the spectrum but these should be considered alongside a clearly articulated future for a public service Saorview.

Appendix: List of stakeholder interviews

Organisation	Interviewee	Format	Date
2RN	Mick Kehoe Executive Director	Meeting	24 June 2013
	Padraig Leahy	Meeting	22 July 2013
Arqiva	Pat Walls General Manager, Ireland	Meeting	25 June 2013
BBC	Simon Cottle, Regional Distribution Director BBC Worldwide	Call	10 July 2013
	Jim Egan, COO BBC World News		
BSkyB Ireland	JD Buckley Managing Director	Meeting	25 June 2013
	Mark Deering Director of Corporate Affairs		
Channel 4	Carl Pfeiffer Business Development Manager - Distribution	Call	16 July 2013
Commission for Communications Regulation	Jason Cleary Analyst, Wholesale Division	Meeting	24 June 2013
	Jim Connolly Senior Spectrum Advisor		
	Kevin Kennedy Spectrum Development Manager		
	George Merrigan Market Framework – Director		
	Peter Moran Manager, Spectrum Planning		
	Kevin O'Brien Commissioner		
Department of Communications, Energy & Natural Resources	Éanna Ó Conghaile Principal Officer, Broadcasting Policy Division	Meeting	26 June 2013

Organisation	Interviewee	Format	Date
Department of Communications, Energy & Natural Resources	Aidan Ryan Telecommunications Advisor, Business and Technology Division	Call	9 July 2013
Eircom	Simon Kelehan Head of TV Content Matt Seaman Head of TV Propositions	Meeting	25 June 2013
Freesat	Clare Cooke Commercial Director	Call	29 July 2013
RTÉ	Richard Waghorn Chief Technology Officer	Meeting	24 June 2013
Setanta	Michael O'Rourke Chief Executive Officer Brian Quinn Marketing Operations Director	Meeting	24 June 2013
TG4	Padhraic O'Ciardhra Deputy Chief Executive	Meeting	25 June 2013
TV3	David McRedmond Chief Executive Officer Aodha O'Connor Chief Finance Officer	Conference call	19 June 2013
UKTV	Simon Brown Executive Director of Strategy and Research	Meeting	19 July 2013
UPC Ireland	Ray Collins VP Corporate Development, Liberty Global and VP Strategy UPC Ireland Kate O'Sullivan Vice President Corporate Affairs	Conference call	27 June 2013
UTV	Michael Wilson Managing Director UTV Television	Call	9 July 2013