

Picnic - the new entertainment and communications service from Sky

Background information

- 1.1 This paper provides additional background information on Sky's proposed new **Picnic** digital television, broadband and telephony services.
- 1.2 Sky has decided to cease broadcasting its channels on DTT on a free-to-air basis. It now wishes to provide a more attractive, wider range of content on a pay basis in order to provide a more compelling TV offering to consumers, whilst making a better return on use of its DTT capacity. In addition, Sky is seeking to extend its existing strategy of providing attractive, competitive, flexible broadband and telephony products, to be made available to the wider UK population.
- 1.3 Picnic will be a new business proposition marketing a compelling range of new services under a new, different brand. The Picnic business will have its own dedicated management team and its own staff and resources (including marketing, IT and customer service functions). It is intended that Picnic is able to operate on a stand-alone basis, and market its services separately from Sky.
- 1.4 The main focus of this paper is on the new pay TV digital television service that will be provided by Sky on DTT and which will be the subject of Ofcom's forthcoming consultation and approval. Some further details of the proposed broadband and telephony services are also provided. Full details of the pricing, packaging and other terms and conditions of the various Picnic services will be announced closer to launch.

Status of TV services

- 1.5 Sky currently broadcasts three channels, *Sky News*, *Sky Sports News* and *Sky Three*, on DTT, using capacity on Multiplex C, which is operated by National Grid Wireless Ltd (NGW). On 8 February 2007, Sky announced that it is developing plans to replace these channels as part of the launch of a new subscription television service on DTT, which will enable customers to receive some of Sky's most popular pay TV programmes and channels via the DTT platform.
- 1.6 Sky has applied to Ofcom to vary its Digital Programme Service (DPS) licence to reflect the changes proposed to its DTT channel line-up. NGW has also submitted a corresponding application to Ofcom to vary its Multiplex C licence, to reflect these changes to Sky's DTT channel line-up.
- 1.7 At this stage, Sky's (and NGW's corresponding) application only concerns the replacement of Sky's existing three FTA DTT channels with pay DTT channels (in MPEG2). These three replacement channels will continue to make use of the capacity currently allocated to Sky on Multiplex C (under the terms of the existing Agreement between Sky and NGW) and will continue, initially, to be broadcast using MPEG2 compression technology only.
- 1.8 Sky and NGW continue to be in discussions over a range of issues pertinent to the future development of the Picnic TV service on DTT, such as (i) the deployment of MPEG4 compression technology on Multiplex C, (ii) any consequent changes to the allocation of

capacity to Sky on Multiplex C, and (iii) any changes to the number of channels to be broadcast by Sky on Multiplex C. Resolution of these issues will require agreement with NGW and may require further approvals from Ofcom.

Status of broadband and telephony services

- 1.9 Picnic will also offer broadband and telephony services, available both on a standalone basis and as part of a bundle of services. It will make use of the Easynet fibre network and will be available to around 70% of UK homes. Picnic's broadband and telephony services will be based on the model already deployed by Sky in relation to its Sky Broadband and Sky Talk services. Picnic broadband will provide customers with download speeds of up to 16 Mb/s; Picnic telephony will provide customers with a range of competitive calls packages.

2. Proposed Picnic TV service

- 2.1 Sky intends to replace its current three DTT channels with the following services retailed as part of the Picnic service:

Sky Sports - *Sky Sports 1* will be broadcast on DTT - this will be a simulcast of *Sky Sports 1* on DSat. It will be broadcast 24 hours a day, 7 days a week. *Sky Sports 1* provides on average over 22 hours or more sports programming per day, including live coverage of the most popular sports including football (including FA Premier League and UEFA Champions League matches), golf, tennis, international and domestic cricket, international and domestic rugby union and rugby league, as well as a wide range of other sports.

Sky Movies -the *Sky Movies* service on DTT will be a simulcast of *Sky Movies SD1* currently broadcast on DSat. It will commence broadcasts daily at 6pm and finish at between 3am and 6am. *Sky Movies SD1* is a mixed genre movie channel featuring a mix of recently released and library movies licensed from the major Hollywood studios and independent and European distributors, across the range of genres covered by the *Sky Movies* channels.

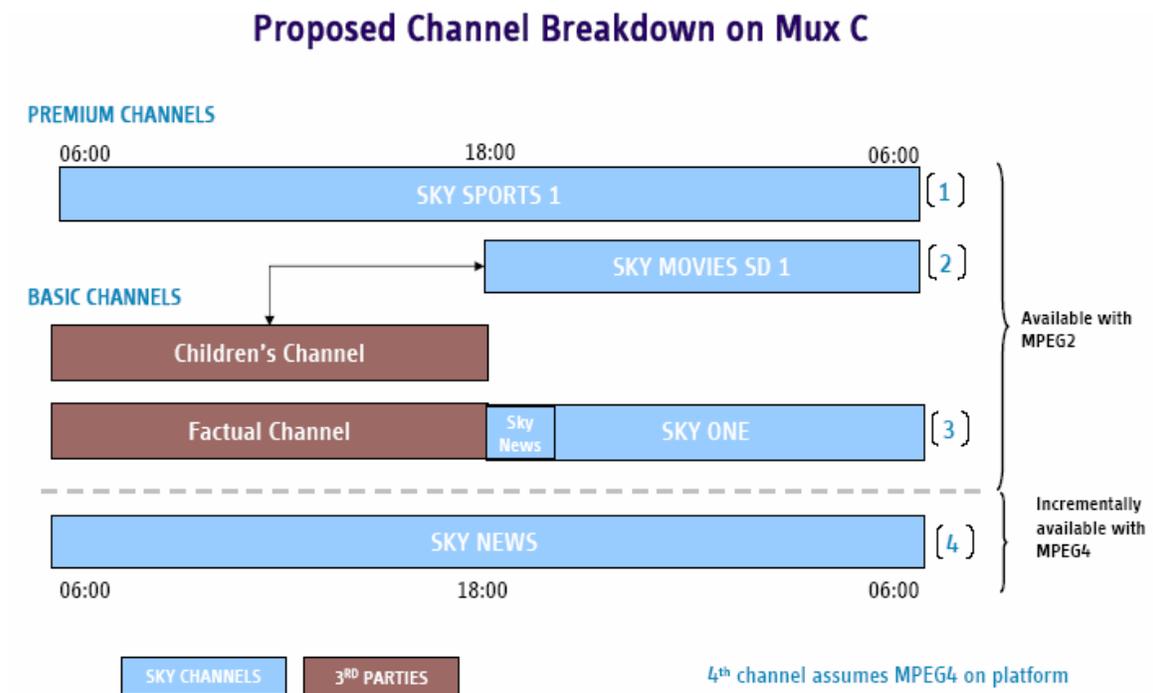
Sky One - *Sky One* on DTT will be a simulcast of *Sky One* on DSat between the hours of 7pm and 6am. Sky also currently intends to schedule some (live, simulcast) **Sky News** content between the hours of 6pm-7pm, up to 7 days a week. *Sky One* is Sky's general entertainment flagship channel, targeted at the 16-44 year age group, and the home to first run US entertainment programmes and UK-commissioned factual and drama series.

If Picnic's channel line up were to be expanded by Sky being permitted by Ofcom to broadcast more than three channels, a fourth pay channel would be *Sky News* (broadcast 24 hours a day, seven days a week).

All the Sky channels on DTT may contain different adverts and promotions from their counterpart channels on DSat.

- 2.2 Additionally, Picnic proposes to "day-part" the *Sky Movies* and *Sky One* services on DTT (i.e. sharing videoteams with other broadcasters' services). Sky is currently in discussions over such arrangements with two third party broadcasters who will be permitted to use Sky's allocated capacity on Multiplex C for the broadcast of their channels on DTT. These third party services will be retailed as part of the Picnic TV offering.

- 2.3 Picnic proposes to day-part *Sky One* with a factual channel, and *Sky Movies* with a children's channel. The factual channel will broadcast between the hours of 6am and 6pm, 7 days a week. The children's channel will broadcast between the hours of 3am and 6pm, 7 days a week. (Sky initially expects the children's channel to commence broadcasts daily at 6am, but will have the flexibility to commence its DTT broadcasts as early as 3am, when the *Sky Movies* service usually ends its daily schedule.)
- 2.4 Sky hopes to announce the successful conclusion of these discussions (and the identity of the two third party broadcasters) shortly.



Benefits created by the new Picnic TV content

- 2.5 Whilst a broad range of content (across a range of genres on over 40 FTA channels) is already available to DTT viewers, the changes to Sky's channel line-up, even whilst restricted to three MPEG2 channels, will introduce to DTT viewers a broader, more comprehensive range of programming, covering an expanded range of programming genres, with more live and "first-run" programming, than is available through the offering of (pay and Freeview) services currently available on DTT.
- 2.6 The inclusion of *Sky Sports* content will provide a wider range of sports-related content (including coverage of many live sports events) than available at present to DTT viewers. Likewise the inclusion of *Sky Movies* and *Sky One* content will increase the amount of recent, high quality, high profile movies, general entertainment and factual content than is presently available to DTT viewers. The continued inclusion of *Sky News*-originated

content in Sky's line-up of three DTT channels will ensure the ongoing availability of a plurality of news-related content to DTT viewers.¹

- 2.7 The inclusion of the third party content will expand the content genres available as part of the Picnic service, and further strengthen the range of content available on the DTT platform.
- 2.8 These improvements to Sky's channel line-up will therefore enhance the attractiveness, range and quality of the types of programming available on DTT. The Picnic service will further contribute to the choice of content, across a range of genres, provided on DTT platform, and so appeal to a wider variety of tastes and interests than are catered for at present. It will enhance the overall DTT channel line-up, representing a further strengthening of the platform's offering, which has grown from around 20 FTA channels in 2002 to, presently, over 40 FTA channels (including a number of FTA "sister" channels of the main UK PSB analogue terrestrial broadcasters) and some pay services since the launch of Freeview in 2002.
- 2.9 Further, Sky considers that the introduction of a new pay TV provider on DTT will improve the range of content available on the DTT platform, providing a more comprehensive content offering, with greater appeal to a variety of tastes and interests than at present. This will be in the interests of both consumers and competition in general.

3. Reception equipment

- 3.1 As Sky intends to change its DTT channels into pay services, they will need to be encrypted with conditional access technology (with the broadcast stream being encrypted for transmission and then decrypted in the relevant reception equipment). Sky intends to use NDS CA technology - using a system similar to the one which is already used by Sky on the digital satellite platform, which is trusted by both Sky and its rights holders in terms of the security it provides against unauthorised viewing.²
- 3.2 Sky also intends to broadcast its services in MPEG4 compression technology in due course (once agreement has been reached with NGW and any necessary approvals have been obtained from Ofcom). The use of MPEG4 compression technology will be of benefit to the DTT platform as a whole, with the more efficient use of bandwidth enabling additional channels and services (including, potentially, from broadcasters that currently do not have a presence on DTT) to be made available to DTT viewers. This is likely to result in an expansion of the range and choice of content available on the DTT platform. The MPEG4 compression technology is already in use on other DTT platforms in other EU member states.
- 3.3 These propositions will therefore require a new specification of set top box to be manufactured and made available to DTT viewers. In order to ensure that compatible set top boxes are made available in time for launch of Picnic on DTT, Sky has commenced discussions with manufacturers to that effect.

¹ It is intended that a fourth Sky (pay) channel on DTT would be *Sky News*.

² On the DSat platform Sky is satisfied with the level of security and functionality NDS CA provides. For example, this CA system provides protection to content both whilst it is transmitted in the broadcast stream, as well as once content has been saved onto the hard drive of any PVR (that is made available to store such encrypted programming), this being a strict requirement of many of Sky's right-holders.

“Horizontal market”

- 3.4 Picnic is intending to put in place arrangements for the supply of reception equipment (and viewing cards) to its DTT subscribers that will essentially replicate the “horizontal market” already in place for DTT Freeview set top boxes. Picnic will work with manufacturers to ensure the supply of reception equipment that is compatible with both (existing and future) Freeview services as well as Picnic’s services.
- 3.5 The involvement that Picnic will look to retain in the specification of DTT reception equipment will therefore be limited to ensure that such equipment will be compatible with both Picnic and Freeview services, namely limited to:
- (i) the incorporation of NDS CA into set top boxes (such technology can be licensed from NDS by any manufacturer for a nominal fee to cover integration costs);
 - (ii) ensuring the capability of receiving both MPEG2 and MPEG4-based signals;
 - (iii) ensuring compatibility with all Freeview channels and services including applications broadcast using MHEG5 v1.06;
 - (iv) be capable of supporting audio description services; and
 - (v) Picnic is also asking manufacturers actively to support the requirements of the “*Digital Tick*” and to work to an industry best practice standard on all accessibility issues, such as ensuring the availability of audio description services (as well as subtitling services) through such reception equipment.
- 3.6 In contrast to the current supply arrangements in place for reception of other reception devices that are used to receive other pay TV services already available in conjunction with the DTT platform, the “horizontal market” arrangements to be put in place for the supply of reception equipment containing NDS CA technology will not prevent manufacturers incorporating more than one CA system or a common interface (for use with a conditional access module, for example).³
- 3.7 Accordingly, Picnic will be happy for manufacturers to include functionality in reception equipment which will enable customers to access further pay TV services, in addition to those provided by Picnic. Manufacturers will be free to manufacture Picnic compatible set top boxes that contain a common interface (including the ability to connect to a separate conditional access module), or a second CA technology in addition to the NDS CA system. This could permit, for example, customers to subscribe to pay TV channels from *Setanta Sports* and Picnic via the same set top box.
- 3.8 In addition, Picnic will welcome manufacturers seeking to develop a variety of reception equipment containing a range of functionality. They will be free to manufacture set top boxes that, for example, (i) contain an integrated PVR (which could be *Freeview Playback*

³ Picnic does, however, expect manufacturers to ensure that any such equipment is secure in order to minimise/prevent signal theft and internet redistribution of Sky’s programming, and will work with them accordingly.

compatible), and (ii) are capable of receiving VOD services (streamed via a broadband connection), in addition to being capable of receiving digital terrestrial broadcast services.⁴

- 3.9 Picnic has actively engaged with the DTG and is requesting that manufacturers use the DTG D-Book as the “base line” specification for its reception equipment. (Sky has already joined the current DTG work streams to ensure the D-Book is updated to include references to MPEG4 and the supporting audio compression standards.) Picnic is also requesting that any manufacturers test their reception equipment at the DTG Testing Laboratories in order to ensure that they are “fit for purpose” and comply, where appropriate, with the Government *Digital Tick* requirements.
- 3.10 Picnic does not intend to maintain or impose any link between the availability or price of such reception equipment and the need to take out a Picnic subscription. Instead, Picnic intends that set top box manufacturers will themselves choose to manufacture such equipment, in order to address consumer demand, rather than produce equipment in response to orders made by Sky.
- 3.11 Accordingly, it will be left to the set top box manufacturers to build reception equipment (being both Freeview and Picnic compatible), based on the DTG D-Book, with a user interface and functionality which they define – in response to such consumer demand as exists for reception equipment from time to time. Further, retailers will be responsible for setting their own retail price (and negotiating for the supply of such equipment from manufacturers and/or distributors).
- 3.12 The purchase of a compatible Picnic set top box (including the viewing card) will not therefore require the purchaser to become a subscriber to Picnic’s pay TV services. The reception equipment could be bought solely for the purposes of free-to-air viewing.

PCs

- 3.13 Picnic also envisages addressing viewing of its television service, as well as other FTA DTT services, via PCs. This has involved discussions (which are ongoing) both with OEMs in relation to the incorporation of both a DTT tuner and necessary copy protection and conditional access software into PCs (as appropriate), as well as with relevant operating system and software providers.

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⁴ This would be subject to technical feasibility.