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REPRESENTATION TO

28.8.2002

SMT. SHUSHMA SWARAJ

HON'BLE MINISTER FOR INFORMATION & BROADCASTING

ON

THE COSTING OF FREE – TO – AIR CHANNELS UNDER CAS.

CC : Mr, Rakesh Mohan (JSB, I & B)

Mr. Pothiraj, Director Cost , Ministry of Finance

The Media

Enclosure : Technical & demographic brief conforming to Indian standards.

Date : 28.08.2002

Hon'ble Minister,

This representation comes to you on behalf of cable operators from all over the country, who are the actual last mile service providers as such it is they who incur the cost of providing day to day service to cable TV subscribers.

It is ironical that stake holders in the Satellite and Cable TV Industry, including broadcasters and multi system operators (MSO) who have no role to play in providing the last mile service, are trying to influence the service charges that the last mile cable operator should charge for providing free to air channels.

The reasons for the over-zealousness of the MSO's and the broadcasters are not difficult to fathom, as for years they have been a part of the conspiracy to take over the existing cable operators and monopolise the Satellite and Cable TV Industry.

More particularly, we would like to point out the reasons why the broadcasters and the MSO's have suggested an absurdly low price for free to air channels (FTA):-

1. It is deliberate attempt to financially weaken the cable operators which would have the following implications:-

a) If the return for providing FTA Channels is low, the cable operators will not be in any position to set up their own Conditional Access System (CAS) and would have to depend on the MSO's. This will allow the MSO's to exercise direct control over the subscribers of the last mile service providers who would then be made redundant.

b) The financially weak cable operators will be ripe for take over after their business has been rendered unviable by the low price of FTA Channels. Thereby the process of take over, buy outs and monopolisation will be hastened. This will result in huge unemployment in the small scale cable TV Industry which currently employs over ten lakh people including network maintenance and the staff and management of the ancillary industries.

c) The cable operators will be in no position to up-grade the networks in order to provide value added services like pay-per-view, video-on-demand, interactive gaming, e-commerce etc. This market is actually what the broadcasters and MSO's are salivating over and if they are successful in snuffing out the existing cable operators, the subscribers will end up paying a much higher price not only for these value added services but also for the basic services, through platforms like DTH broadcasting. It is therefore understandable why the concept of "Head-end in the Sky" was propagated by certain broadcasters and MSO's. The intention was clear : To have direct control over the entire subscriber base of the country. This is nothing but wired DTH, without having to pay the prescribed licence Fee as prescribed to obtain a DTH licence.

2. The absurd suggestion by the broadcasters that the price of FTA Channels should be around Rs.40 per month, is actually aimed at pocketing an overwhelming 85% of the revenue being generated on a per subscribers basis. That is out of total subscription amount

of Rs.250 per month the broadcasters want to take home as much as Rs.210 and leave a pittance for the cable operators.

There is bound to be a temptation on the part of the government to accept the price of FTA Channels suggested by the broadcasters as this would constitute a populist move. However there is a grave danger in the fall out of such a pricing, especially when the state governments themselves are charging Rs.20-30 per subscribers per month as entertainment tax, there is no justification on the part of the government to force the cable operators to work much below their cost of operations. This would violate the fundamental right to carry on the trade and profession of the cable operators as enshrined in the CONSTITUTION of India.

We would now like to bring out the anomaly in the cost of operations as worked out by the cost committee appointed by the government which is totally based on a hypothetical case where by an MSO's headend, serving about thirty thousand subscribers in an area of radius seven kilometres. In reality, each MSO's headend serves about 80 to 100 last mile operators who inturn serve their subscribers. Each last mile operator maintains an independent establishment catering to an average of 500 subscribers which encompasses the following :-

1. Network Maintenance / up gradation expenditure.
2. Administrative cost.
3. Accounting, finance, subscription and Tax collection.
4. Recovery of Investment incurred per subscriber.
5. Interest on Capital expenditure in distribution plant.

The calculations made by the officials of Expenditure Department, Ministry of Finance also do not take into consideration that all Networks have to adhere to the BIS standards for Cable TV operation which is mandatory as per the Cable TV Networks Regulation Act 1995. The cost of Rs. 800/- to Rs. 1000/- per subscriber for distribution Network arrived at by the costing committee is therefore completely unreasonable and unrealistic. The actual cost of distribution Network per subscriber comes to not less than Rs. 1450/- per subscriber on Coax distribution and Rs. 3800/- per subscriber on HFC distribution.

The recurring expenditure incurred by a last mile operator having an average subscriber base of 500 (which is the All India norm) is as follows.

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|---|------------------------|
| ■ Salaries & Wages (2 Technicians, 2 Linemen,
1 Telephone Attendant, 3 Money Collectors) | Rs. 21,000/- per month |
| ■ Telephone /Communication/ Pagers | Rs. 3,000/- per month |
| ■ Electricity/Generator fuel /UPS Batteries | Rs. 7,200/- per month |

■ Rent	Rs. 8,000/- per month
■ Maintenance/replacement cost	Rs. 11,500/- per month
■ Conveyance and miscellaneous	Rs. 4,200/- per month
■ Service cost of MSO @ Rs. 30 Per connection (basic service excluding pay channels)	Rs. 15,000/- per month
■ Cost of attaching cables to DVB polls	Rs. 6,000/- per month
■ Interest on Investments	Rs. 15,000/- per month
Total	<u>Rs. 90,900/- per month</u>

Therefore the per subscriber cost for an average of 500 subscribers works out to Rs. 181.8 per month, rounded off to Rs. 180 per month.

It is therefore obvious that the figures being suggested by the broadcasters and MSO's are neither relevant nor viable and have been put forward with an ulterior motive.

We therefore suggest that the cost structure of the FTA channels should be designed to cover the above mentioned cost of operations of the last mile operators in the following manner :

Minimum 33 FTA Channels (mandatory) @ Rs. 4.00 per Channel

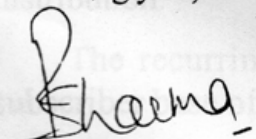
Subject to a ceiling of a maximum of Rs. 250 per-month per subscriber per month (plus taxes) for FTA Channels. The final genre wise composition of the FTA Channels and the total number of FTA Channels shall be decided by the market forces after CAS has been implemented.

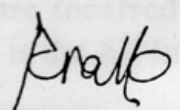
Another important suggestion in this regard is that the notification on the imposition of service tax should be delayed to coincide with the implementation of CAS, as it is simply impossible for the cable operators to collect the same in the current scenario.

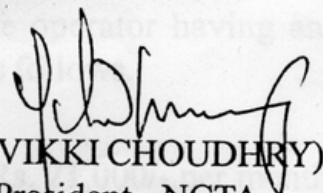
We sincerely hope that the suggestion of the actually affected last mile cable service providers shall be given due weightage and consideration otherwise the existing cable TV industry will perish to the detriment of cable TV viewers and the Cable service providers.

Thanking you,

Yours faithfully,


(ROOP SHARMA)
President - COFI


(RAKESH DATTA)
Gen. Sec. - CNA


(VIKKI CHOUDHRY)
President - NCTA