

*Consultation Paper No. 11/2006*



TELECOM REGULATORY AUTHORITY OF INDIA

CONSULTATION PAPER

ON

TARIFF ORDER FOR CAS AREAS

NEW DELHI

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## **PREFACE**

The TRAI had in October 2004 arrived at certain decisions regarding the manner in which Tariff for Cable Television would be regulated in CAS area. Essentially, the decisions of TRAI were to withdraw the current scheme of control of pricing based on the level prevailing in December, 2003. This has been done in view of the fact that in CAS area consumers would have the freedom to pick and choose individual channels to ensure that this freedom is fully available, it had been decided that the discussions for bouquet vis-à-vis the price of the relevant channels would be regulated by fixing to a ceiling for such discount.

Subsequently, in the meetings conducted by Government on CAS implementation in March-April, 2006, several stakeholders suggested fixation of ceiling for individual channels. Since this is at variance with the earlier decision of TRAI, it was considered that it would be appropriate to undertake a fresh consultation on the specific issues of regulation of tariff in CAS area.

Written comments on the issues raised may please be furnished to Secretary, TRAI by July 5<sup>th</sup> 2006 and for any further clarification on the matter, Secretary, TRAI may be contacted on [rstrai@gmail.com](mailto:rstrai@gmail.com) (Telephone No.011-26167448) or Advisor (B&CS) on [rkacker@trai.gov.in](mailto:rkacker@trai.gov.in) (Telephone No.011-26713291 ). The Fax number of TRAI is 011-26713442.

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**Chairman**

**New Delhi**

**14 June, 2006**

## **Background**

The TRAI had in October 2004 sent Recommendations to the Government of India on issues relating to Broadcasting and Distribution of TV channels. The Recommendation, inter-alia, contained the decisions of the Authority on how prices of channels would be regulated in CAS area. The major decisions are as follows:

- i) There shall be no price regulation in CAS areas on pay channels except the limited regulation on maximum allowable discount on a bouquet of channels. Price regulation for those taking the basic tier service of only FTA channels will continue.
- ii) There is thus a need to have a regulation on the maximum allowable discount on a bouquet of channels at both the wholesale and retail levels in CAS areas. The Authority would issue appropriate regulation in this regard under Section 11(2) of the TDRAI Act on acceptance of the recommendations by the Government.

2. During the meetings convened by the Government on implementation of CAS in March-April, 2006, a number of stakeholders suggested a tariff control regime that was different from the above. The major changes suggested was that there should be a maximum retail price for a channel to be prescribed to avoid any unrealistic fixing of individual price of popular pay channels. This would be in addition to the ceiling on maximum permissible discount for bouquet. It was considered that with both these controls, there would be adequate choice to the consumers.

## **Alternatives and Options**

3. In case the above suggestion is accepted, fixation of prices would have to be based on some principle. The Authority has looked at cost based pricing in the past and had come to the conclusion that while for content this is not feasible, for carriage the problem is to find a representative network given the vast variety of these networks. The alternative is to look

at historical price. The only place where CAS is in force is Chennai. Therefore, individual channel prices prevailing in Chennai could be used as a benchmark. This principle could lead to several alternatives, which are discussed in the following paragraphs.

4. Historical prices of channels of the same genre have varied. The variation in historical prices could mean that the price of the channel of a particular genre may have, as a benchmark a range of historical prices to be assigned to a particular channel. One alternative could be to use the maximum historical price of this range as a benchmark for all channels falling under a particular genre across all broadcasters. This benchmark would serve as a ceiling and would have the advantage of providing flexibility to individual broadcasters to price their channels falling under that genre within the ceiling. But this approach could have the following problems:

- i) The maximum of the range of historical prices as a ceiling could encourage the broadcasters to push up the prices of their channels up to or near the level of ceiling even though their historical prices are otherwise much lower than the ceiling.
- ii) If a particular channel provider is able to mark his channel at such increased prices it may encourage the other broadcasters to follow the same leading to overall increase in the prices of all the channels falling under a particular genre almost near the ceiling level.
- iii) This approach presumes that the consumers by virtue of having a choice to reject or accept a channel at a given price would reject if the price offered is not acceptable. If this presumption were to hold then there would be no rationale for fixing prices
- iv) Categorizing a particular channel to be falling under a genre would be difficult particularly when a channel has a mixed programme content having features of different genres targeting different segments of subscribers.

5. Another alternative is to pick up any price in the range as a representative price for all the channels falling under a particular genre. This approach has the advantage of

preventing the broadcasters from increasing their prices up to the ceiling level but may have the following problems:

- i) The assigning of a single price would amount to ignoring the variations between channels even though falling under the same genre on account of differences in programme content, quality of programming, popularity of channel, geographical reach of the channel, language of the channel and such other factors.
- ii) The basis of determination of a representative price is very difficult and cannot be objectively justified.
- iii) Categorizing a particular channel to be falling under a genre as in the first alternative would be difficult, particularly when a channel has mixed programme content having features of different genre targeting different segments of subscribers.

6. The third approach could be to recognize the individual historical channel prices as the benchmark for that channel. The advantage of this approach would be that it avoids any artificial assigning of prices. The problems in this approach could be:

- i) The historical prices of the channels were at the level prevailing as on 26<sup>th</sup> December 2003 and were adjusted for an inflation factor of 7%. The inflation adjustment of 7% or any % of adjustment for that matter could be questioned as the inflation indices used may not represent the cost of inputs associated with the carriage component of the price of the channel. In regard to the content portion of the price, the very approach of adjusting the prices for inflation based on indices of certain selected inputs could be questioned on the ground that the content is a copy right material and cannot be measured with the help of indices.
- ii) In regard to the new pay channels a question could arise as to how the price would be determined as there would be a number of channels falling under the same genre having different prices.

7. From the above it appears that there is no clear method for fixing prices that will meet all objections. In general the advantages and disadvantages of fixation of prices in CAS areas are as follows:

- i) By fixing individual prices consumers would have greater comfort in adopting CAS.
- ii) These prices can be fixed in such a way that there is genuine choice to individual consumers to choose the channels of their choice.

8. The disadvantages of fixing the prices are as follows:

- i) Fixing of these prices could distort the incentives to produce quality programmes.
- ii) Since the consumers have choice in CAS, fixation of prices is an unnecessary intervention in the market.

9. During other interactions that TRAI have had with consumer organizations, it has also been suggested that apart from the maximum discount on bouquet, there should also be a ceiling on individual prices in relation to the average price of the relevant bouquet. Thus if a bouquet is priced at Rs.35 and has seven channels, then the cost of single channels cannot exceed Rs.10/-. if the maximum permissible price is fixed at twice the average price of a channel in the bouquet.

10. Considering the above there could be several options of fixing prices . Some possible alternatives are suggested below:

**Option I**

- The Broadcaster shall announce the price of each individual channel
- Forming of Bouquets are not permitted

**Option II**

- The Broadcaster shall announce the price of each individual channel
- Forming of Bouquets are permitted

- TRAI fixes the maximum ceiling for bouquet discounts

### **Option III**

- Same as II above with the addition that TRAI also fixes the ceiling of an individual price as a percentage of the average bouquet price

### **Option IV**

- TRAI fixes the ceiling price for each individual genre
- TRAI fixes the maximum ceiling for discounts for a bouquet.

These options are only illustrative. There could be several other alternative mixes of regulation and forbearance.

### **Issues for Consultation**

**In the light of the above discussions, the following issues are posed for consultation.**

- i) Should TRAI fix the maximum retail price for each individual channel ?**
- ii) If so, what should be the methodology and principles to be adopted for the same?**
- iii) Should TRAI promote individual choice of channels by fixation of the maximum price as a percentage of the average price of a channel in a bouquet and if so, what should be this percentage?**
- iv) If the individual MRPs are fixed by TRAI, along with a formula as indicated in (iii) above, should TRAI also regulate the maximum permissible discount for the bouquet of channels ?**
- v) Which of the Options at para 10 should be adopted and why? Is there any other Option that should be adopted ? If so please give details along with reasons.**

