ANNEX 2

MIGRATION OF BROADCASTING SERVICES FROM 700 MHZ BAND IN IRELAND
OUTLINE OF COST RECOVERY MECHANISM IN RELATION TO COSTS INCURRED BY RTÉ IN
ITS ROLE AS MULTIPLEX OPERATOR

CRM PRINCIPLES
As the migration of broadcasting services from the 700 MHz band provides no benefit to
those operating or using the Saorview service, it is proposed to establish a Cost Recovery
Mechanism (CRM) that will enable the multiplex operator, RTÉ, to recover the costs it
incurs in undertaking this migration.

RTÉ would be the sole beneficiary of funding provided under this cost recovery mechanism.
The type of costs to be covered by this CRM include the following:

- Infrastructure Costs — Costs that RTÉ incurs as a result of 2rn making infrastructure
  changes to the DTT network on its behalf and related programme management
  costs.
- RTÉ’s Operational Costs — Operational costs incurred by RTÉ in developing, managing
  and participating in the network change project (e.g. the cost of RTÉ staff based on
  the time spent on the project; cost of external services such as consultancy and legal
  services)

The main principle to apply to the operation of the proposed CRM is that only efficiently
incurred incremental costs will be eligible for recovery by RTÉ. As noted above, it is
proposed that this will include relevant capital and operational expenditure.

TREATMENT OF CAPITAL COSTS
In relation to capital equipment (capex) costs that are likely to arise as a result of the need
to migrate broadcasting services from the 700MHz band, these can be broken down into
two separate categories, i.e. (a) those which are brought forward as a result of the
migration from the 700MHz band (which are partially compensated), and (b) capex costs
which would not otherwise have been incurred absent the requirement to migrate from the
700MHz band (e.g. new sites, new leased lines, new antennas) and for which compensation
is to be provided in full.

In relation to case (a) above, a piece of capital equipment that was, for example, installed in
September 2011 with an expected life-span of 13.33 years (i.e. until end 2025) but needs to
be replaced in 2019 as a direct consequence of the proposed migration, it is proposed that
RTÉ would be able to recover the incremental costs involved.

Under this approach, the compensation model would reflect the costs incurred for the new
asset but only to fund annuity payments up to a point in time, when the pre-existing asset
would have reached the end of its asset life (i.e. the compensation would comprise the

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1 It should be noted that, on the basis of the commercial service provision contract between RTÉ and 2rn, all
costs incurred by 2rn in undertaking works to enable the migration of broadcasting services from the 700 MHz,
will be covered by RTÉ.
annuitized cost of new assets up to the point where existing assets would have been replaced). The value of the pre-existing assets and annuity costs associated with the new asset, for any years beyond the normal replacement of the existing asset should be funded through regulated tariffs.

TREATMENT OF OPERATIONAL COSTS
In the case of operational costs, all reasonable operational costs efficiently incurred in the migration related activities, including relevant administration, technical/engineering and project management costs, should be capable of being fully recovered by RTÉ.

OUTLINE OF MECHANISM
At the start of the project, the Department of Communications, Climate Action and Environment (DCCAE) and ComReg will inform 2rn and RTÉ of the CRM methodology as outlined above.

The following is an outline of the steps to be taken in the process leading to the multiplex operator (RTÉ) being able to recover the relevant Capital and Operational costs:

1. DCCAE, together with ComReg and its consultants (Frontier Economics), agree with RTÉ and 2rn the scope of the work to be undertaken to migrate DTT out of the 700 MHz band.

2. Relevant channel changes etc. are agreed for each transmission site as a result of the spectrum planning work undertaken by the Communications Regulator (ComReg) and 2rn.

3. 2rn and RTÉ agree the capital works that needs to be undertaken (in the context of the agreed scope of work) at each transmission site to enable the migration to take place and, on this basis, agree an efficient network design which is to be reviewed and approved by the ComReg consultants. Once approved, this agreed network design, together with approved operational costs identified at 4., will form the basis for the initial cost estimates to be prepared by 2rn.

4. 2rn and RTÉ agree an indicative detailed budget covering all expected operational costs, including administration, technical/engineering and project management costs, and submit this budget to ComReg and its consultants for review (as to its reasonableness and appropriateness) and subsequent approval.

5. Once approved, the agreed network design and the agreed operational costs will, together, form the basis for the initial cost estimates to be prepared by 2rn.

6. Based on the initial cost estimates prepared by 2rn, agreement is reached between DCCAE and RTÉ on providing advance payments to enable RTÉ to have the work undertaken, taking account of 2rn cash flows and the need to fund deposits on equipment orders. Recognising that the accuracy of individual site estimates is likely to vary, payments will be set on the basis of the level of total network expenditure as opposed expenditure on a site by site basis.
7. As funding is to be provided based on the total estimate of the allowed compensation, the agreement at 6. will include provision for (a) in the case of capital equipment, undertaking milestone reviews at each juncture which will involve assessing confirmed supplier prices and actual costs incurred at network sites (where early intervention is occurring), and (b) in the case of operational expenditure, undertaking regular reviews of detailed accounts of costs incurred to be supplied by RTÉ/2rn as and when requested with supporting documentation (e.g. these would include all staff costs on a grade per day basis) to ensure they reasonable and appropriate (or not) for payment.

8. In order to ensure that there is a transparent separation between the costs and receipts associated with the 700MHz migration project and those of other services, 2rn/RTÉ shall put in place the internal accounting arrangements, as well as the parameters for allocating costs and revenues, as set out in the report entitled “Accounting and cost control 700 MHz migration project” agreed with the Department on 12 December 2016.

9. 2rn issues requests for tender from relevant suppliers, as per the agreed network design.

10. Upon the appointment of a preferred supplier or suppliers by 2rn, details of the replacement equipment being proposed by each supplier will be submitted by 2rn to ComReg. The details submitted by 2rn will include 2rn’s reasoning on why the replacement equipment chosen is technically efficient and a ‘reasonable cost’. ComReg will examine the equipment suppliers proposals, together with 2rn’s proposal to ensure that the equipment replacement is appropriate and necessary from the following perspectives:

- technical/engineering – examine the preferred supplier’s proposals, together with 2rn’s reasoning on why the equipment is technically efficient, to determine whether the replacement equipment is as a consequence of 700 MHz migration;

- cost – review the preferred supplier’s proposals that the replacement equipment is a ‘reasonable cost’.

11. ComReg will calculate the value of the incremental costs incurred and confirm to DCENR.

12. A necessary step prior to completion of the overall 700MHz migration project will comprise a reconciliation of costs incurred and monies received to ensure that no over-compensation has occurred, in accordance with EU rules. The methodology for undertaking this reconciliation is set out in section 4 of the Frontier Economics Report. For the avoidance of doubt, in the event of any overcompensation being identified, RTÉ will be required to repay the overcompensation in full.