

## Efficiencies

### Introduction

1. Arqiva submitted detailed arguments setting out the efficiencies that it believed it would achieve as a result of the merger and integration of its business with NGW. These efficiencies include operational synergies, capital expenditure synergies, and the benefit of significantly reducing the level of risk inherent in the DSO process.
2. None of these claimed efficiencies increases competition in the relevant markets. Therefore, the context within which we will consider these efficiencies is within a consideration of relevant customer benefits, which arise as a result of the merger and which may be affected by our proposed remedies.<sup>1</sup> This consideration comes after the publication of our provisional findings.
3. At the current stage in our inquiry, this appendix summarizes Arqiva's submissions with regard to the efficiencies which it expects to arise from the transaction, and how these savings will benefit customers, but does not present any analysis of these submissions.

### Operating cost savings

4. Arqiva estimated that, by the year ending June 2010, the combined entity would be able to achieve annual merger-related operational efficiencies of £[REDACTED] million (in nominal values, including RPI at 3 per cent), as set out in Table 1.

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<sup>1</sup>For more information with regard to our treatment of relevant customer benefits, please see our guidance, CC3, paragraphs 4.34 to 4.45.

TABLE 1 **Estimated operational synergy savings**

	Year to 30 June 2010 (estimate) £m
Headcount	<div style="font-size: 4em;">{</div> <div style="font-size: 4em;">}</div>
IT	
Property	
Other	
Rounding	
Total	

Source: Arqiva.

### **Headcount**

5. Approximately [%] per cent of the parties' employees are employed in operations, engineering and implementation, with both businesses having a field team across the UK, responsible for maintaining operations at their own and at each other's sites. [%]
  
6. Arqiva estimated that, within a year, [%] roles could be eliminated within the combined organization, of which [%] relate to DSO and are therefore a capital expenditure saving, and the remainder relate to operational activities (in the areas of operations, engineering and implementation, business units, and back office), resulting in an operational saving of £[%] million a year by 2010.

[%]

7. [%]

[%]

8. [%]

[%]

9. [%]

## ***IT***

10. Arqiva currently [X]. Arqiva submitted that it believed these services [X]. In addition, Arqiva estimated that the reduction in headcount, noted in paragraph 5, would [X], due to [X], and also estimated that merging its IT network with that of NGW would [X]. After allowing for inflation, Arqiva submitted that the [X].

## ***Property savings***

11. Arqiva submitted that the reduction in headcount enabled by the merger would also reduce the [X] required, by 2010 saving £[X] million a year directly, and saving a further £[X] million from [X].

## ***Other operating cost savings***

12. Arqiva submitted that the merged entity could achieve operational savings of between [X] and [X] per cent in several other areas, due to [X], for example in [X]. Arqiva estimated that, by 2010, the total value of these savings would be approximately £[X] million a year.

## ***Capital expenditure savings***

13. Arqiva estimated that, over the next six years to 30 June 2013, during which period the DSO roll-out programme would be completed, the combined entity would be able to save a total cost of £[X] million, as set out in Table 2. In addition, Arqiva estimated that it could save an ongoing £[X] million a year in normal [X] capital expenditure costs.

TABLE 2 **Estimated capex savings to 2013**

Six years to  
30 June 2013  
£m

DSO NA labour costs	(      ✂      )
DSO NA equipment costs	
DSO MTS labour costs	
DSO MTS equipment costs	
Non-DSO capex savings	
Total	

Source: Arqiva.

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### **DSO roll-out network access labour costs**

14. Arqiva submitted that the original estimates for the labour cost of DSO NA implementation included [£x]. It stated that better planning of the DSO process would enable a more optimal utilization of internal resources, such that the combined entity could achieve an efficiency saving of [x] per cent of this forecast cost, or £[£x] million over six years. Further, Arqiva submitted that rationalizing the two internal NA implementation teams would enable a reduction, over the DSO programme, of [£x] full-time equivalent employee positions, as stated in paragraph 6, saving a further £[£x] million over the period.

### **DSO roll-out network access equipment costs**

15. As part of the DSO process, both Arqiva and NGW are planning to purchase and install a new [£x]. Arqiva submitted that, as a merged entity, [£x].

### **DSO roll-out MTS labour costs**

16. Arqiva estimated that [£x].

### **DSO roll-out MTS equipment costs**

17. Arqiva submitted that it had forecast [£x], as it believed it had [£x].

### ***Infrastructure maintenance***

18. Arqiva also submitted that [X], for example in the purchase of [X]. Arqiva estimated that these efficiencies could save £[X] million a year.

### ***De-risking the DSO process***

19. Arqiva submitted that the DSO process is highly complex, both technically and logistically, and involved significant risks. Any delay to the DSO programme, or unplanned reduction in service, would have severe adverse consequences for the parties, their customers, the ultimate consumers of terrestrial television and Ofcom.
20. Arqiva submitted that the merger offered the opportunity to significantly de-risk the DSO process by reducing both the control risk and the scale and timetable risk of the process.

### ***Control risk***

21. Arqiva submitted that putting the DSO roll-out process in the hands of one broadcast transmission supplier would enable significantly greater coordination and cooperation, so reducing the control risk inherent in the process.

### ***Scale and timetable risk***

22. Arqiva also stated that the scale and timetable of the process meant that, as individual companies, both Arqiva and NGW would be significantly stretched by the roll-out process, whereas as one company they would have the opportunity to compensate for each other's peaks and troughs of activity and so be able to manage their combined resources more effectively.

### **Pass-through of efficiencies to customers**

23. Arqiva submitted that, if the merger were allowed to proceed, its broadcast customers would share to a significant extent in the benefits of the merger-related efficiencies.

### ***Operational efficiencies***

24. Arqiva submitted that it had forecast that its [redacted] customers, [redacted] customers and [redacted] customers would all receive approximately [redacted] per cent of the relevant specific operating cost savings. Arqiva submitted that this share would be achieved by its customers applying commercial pressure on the merged entity, and by some degree of informal regulatory involvement.
25. Subsequent to DSO, Arqiva submitted that [redacted] agreements in its MTS/NA contracts with the BBC, SDN and Digital 3 & 4 would ensure that [redacted] of its operational cost savings would be transferred to these customers.

### ***Capital expenditure efficiencies***

26. Arqiva submitted that the capital expenditure savings relating to the provision of MTS are entirely derived from [redacted], and will therefore be [redacted]. However, Arqiva stated that the capital expenditure savings from the provision of NA will be shared with all the DTT multiplexes, including the merged entities' broadcast customers for MTS/NA, due to the application of the same commercial pressures and [redacted] agreements as highlighted above.