

Executive Summary

Introduction

TELUS Communications Inc. is seeking Canadian Radio-television and Telecommunications Commission's (CRTC) approval to operate a national Video-on-Demand (VOD) programming undertaking.

A programming licence is necessary to support TELUS' desire to offer Video-on-Demand services. VOD content will be acquired from a variety of potential providers and will be made available on an individual program basis or in special packages. Customers will be able to order programs from a suite of entertainment choices on a real-time basis from their TV set-top box interface.

Scope of Licence

TELUS is seeking a national licence and proposes to introduce its service in conjunction with TELUS' anticipated Broadcast Distribution Undertaking (BDU) service roll-out. TELUS' VOD service will be made available to all eligible TELUS TV customers.

TELUS anticipates rolling out its VOD service following approval of this and its BDU application by the Commission. TELUS has requested that its VOD licence be effective when the Company is ready to begin operations for the BDU licence.

A national Video-on-Demand licence will enable TELUS to deliver a "true", fully addressable, two-way VOD service over its existing broadband network in selected communities in Alberta and British Columbia. In order to have comparable service to the incumbent cable companies, TELUS must integrate its BDU offering with its VOD service. In addition to providing comparable service components, this will allow TELUS to present an integrated service offering to its subscribers. An integrated offering, especially in terms of general user interface presentation, parental controls and billing, will also make it easier for customers to use and adopt VOD services.

Service Description

Video-on-Demand allows consumers to order programming such as a movie or other program from a central video server. The service allows many users to instantly access the same videos for viewing on their television sets, at the same time or any time 24 hours a day, 7 days a week.

Where Pay-per-View (PPV) service offers a set suite of movies or events which start at fixed times that customers must tune in at the right time to receive the content, Video-on-Demand lets the customer select when to watch the content and to control the experience by stopping, rewinding or fast forwarding. Generally, the customer will have access to the content for a 24-48 hour period.

TELUS' proposed VOD service is a general interest Video-on-Demand programming undertaking. TELUS' proposed VOD service will consist of digitized entertainment programming with the emphasis on feature films (both recently released and older titles).

While the majority of TELUS' proposed VOD content will consist of English-language feature films, TELUS expects to offer access to films in other languages as well. The extent of this activity and the specific language of the film content will be in response to the demographic composition and market demand of customers. TELUS also anticipates offering content other than feature films, including classic movies and content originally produced for television. TELUS will not be providing any live events as part of its proposed VOD service.

TELUS will be distributing its proposed VOD services in Alberta and British Columbia by means of its own distribution undertaking for which it has applied to the Commission under a separate application. Nationally, TELUS anticipates providing its VOD service by means of non-affiliated distribution undertakings. At this time, the nature of national offerings has yet to be determined.

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This is an exciting opportunity for TELUS, its employees and its customers. TELUS will leverage its operational efficiency plans to ensure that customers receive the best level of service and support. Capital for this initiative will come out of TELUS' existing capital budgets. Specific financial details of the licence application are considered confidential due to competitive reasons.

TELUS looks forward to providing the service to thousands of customers in Alberta and BC who are looking for choices and integrated solutions to their home entertainment, communication and information needs.

Service Delivery

TELUS proposes to offer a commercial VOD service to all its BDU subscribers in Alberta and British Columbia. This service will be provided directly by TELUS through its digital BDU network. All video servers and associated equipment required to transmit VOD programming will be owned and operated by TELUS.

TELUS' proposed VOD service will be provided by means of a set-top box. TELUS VOD subscribers will purchase or rent the TELUS set-top box on a monthly basis. Subscribers will be billed directly by TELUS for their television services, set-top box purchase or rental and VOD services. At this time, the nature of possible national offerings of the VOD service have yet to be determined.

TELUS anticipates that the picture and audio quality of its proposed VOD service will be at a minimum equal to that of other programming services.

Distribution

TELUS' proposed VOD service will be distributed exclusively by TELUS as part of its proposed BDU service in Alberta and British Columbia. TELUS has not concluded any distribution arrangements at this time. TELUS, as a licensed VOD programming undertaking, will be responsible for any content encoding, formatting, scrambling/encryption of the digital signal and replaying, as well as for determining the minimum and maximum number of channels used for distribution.

Marketing & Promotion

As part of its roll-out, TELUS anticipates that its VOD service will be marketed concurrently with its BDU service. In addition, VOD marketing efforts will be targeted at TELUS' BDU subscribers. These services will be marketed to the customer base using many marketing and promotional techniques including electronic, mass and direct mail campaigns.

TELUS anticipates that the program suppliers will partner with TELUS to offer free viewings as part of its marketing plan. These viewings will provide the customers with the opportunity to try the service and to be exposed to more programming content. In addition, free viewings may be used as part of a marketing campaign to stimulate trial of the service. Due to the fact that VOD is not yet broadly available commercially and given that discussions are required with VOD rights holders, it is not known how many free viewings nor how often free viewings would be used for marketing purposes.

The Company expects to offer free access to "previews" on a separate TELUS VOD barker channel. This channel will be available to all subscribers of TELUS television services as part of their basic service. The channel will run continuously to promote the available VOD content. The number and length of the previews will depend on negotiations with the program providers.

Benefits to Consumers

TELUS customers will continue to have the option of choosing existing pay and PPV programming available from TELUS (pending approval of its BDU application). TELUS notes that the dominant

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incumbent BDU in Alberta and British Columbia will continue to offer a PPV service and has recently introduced a VOD service of its own that will directly compete with TELUS' offerings. TELUS is of the view that PPV and VOD services will co-exist and, as such, provide consumers with greater choice.

TELUS' proposed VOD service will provide an additional option by which customers can access Canadian and non-Canadian feature films. Furthermore, to the extent that TELUS' proposed VOD service is viewed as a substitute for movies available from commercial video rental outlets, the availability of TELUS' service will result in subscribers having greater access and exposure to Canadian feature films than they might otherwise have had.

Consumer Safeguards

The essence of a Video-on-Demand service is to enable viewer discretion. The programs appearing on the TELUS VOD Service are unedited and uncut and may contain certain scenes or themes that might be disturbing to some viewers. We believe it is our responsibility to educate viewers and provide them with adequate program descriptions and advisories that will enable an informed choice. As such, all programs will have the appropriate viewer advisories attached to them. Of course, programs that do not comply with the *Pay and Pay-Per-View (PPV) Television Programming Standards and Practices* will not be licensed and distributed on the TELUS VOD Service in Canada. TELUS will also ensure that its VOD service has the appropriate security lock-outs and access controls to enable parents to manage the VOD content that their children access.

TELUS will adhere to the *Pay and Pay-Per-View Programming Standards and Practices* (including the Violence Code contained in it) as well as the CAB "Sex-Role Portrayal Code for Television and Radio Programming".

Benefits to the Canadian Broadcasting System

TELUS' proposed service will deliver on the potential of VOD that was recognized by the Commission when it first licensed commercial VOD undertakings in 1997. By taking advantage of the on-demand nature of VOD and the larger movie content storage capabilities inherent in VOD, Alberta and British Columbia residents will have increased access to Canadian programming. Reflecting the digital nature of the TELUS services, VOD programming will be available to all TELUS customers served under the Company's proposed BDU undertaking.

Benefits to Canada's Film and Television Production Industry

In making its commitments with respect to Canadian feature films, TELUS is aware that its ability to meet these commitments is dependent on the ability and willingness of Canadian rights holders to make their content available for VOD release. TELUS expects that the benefits of VOD release will be substantial, and looks forward to sharing these benefits with the Canadian rights holders.

As discussed in more detail elsewhere in the Application, TELUS will actively undertake to promote Canadian and foreign programs equitably and to guarantee Canadian programs a minimum length of stay on the VOD Service (subject to TELUS being able to secure Canadian feature films from Canadian rights holders for VOD release). For example, TELUS anticipates highlighting Canadian content selections by means of flags or other visual cues in order to draw customers' attention. The Company commits to offer for viewing every new suitable Canadian feature film that becomes available (subject to TELUS obtaining reasonable contractual terms from content rights holders). It is our hope and expectation that such policies will lead to greater exposure for Canadian films and enhance the reputation of Canadian programming in this country and internationally.

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TELUS is of the view that the scope of its proposed service area does not limit its contribution to the policy objectives of the *Broadcasting Act*, and reflects the economics associated with an emerging technology such as VOD.

Licence Conditions

TELUS proposes to offer its VOD service in accordance with the same licence conditions and expectations set out by the Commission in its most recent round of VOD licences. Specifically, TELUS commits that it will:

- Maintain a detailed list of the inventory available on each file server for one year, in which the Company will identify each program by programming category and by country of origin, and indicate the period of time that each program was on the server and available to subscribers
- Ensure that, at all times except as authorized by the Commission, the programming undertaking licensed as a result of this application shall be operated in fact by the Company itself
- Ensure that not less than 5 per cent of the English-language feature films and not less than 8 per cent of the French-language feature films in the inventory available to subscribers are Canadian
- Ensure that its feature film inventory includes all new Canadian feature films that are suitable for VOD exhibition and which meet the approved *Pay Television Standards and Practices Code*
- Ensure that not less than 20 per cent of all programming other than feature films in the inventory available to subscribers is Canadian
- Contribute 5 per cent of its gross annual revenues to a Canadian program production fund administered independently of the Company
- Remit to the rights holders of all Canadian films 100 per cent of revenues earned from the exhibition of these films
- Ensure that not less than 25 per cent of the titles promoted each month on the Company's barker or promotional channel are Canadian titles
- Adhere to the guidelines on gender portrayal set out in the Canadian Association of Broadcasters' *Sex-Role Portrayal Code for Television and Radio Programming*
- Adhere to the *Pay Television and Pay-Per-View Programming Code Regarding Violence*
- Adhere to commitments with respect to closed captioning and undertake to caption up to 90 per cent of its VOD programming by the end of the licence term