

VDSL – The way to Next Generation Access Networks
The reaction of national broadband operators – the German case

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Overview

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I. INNOVATION

Today it is out of question that a NGN will come into existence. It is growing in Europe as it does in the rest of the world. Data & voice come together in the core network. The demand for quality is increasing while potential cost savings make NGN attractive even to the financial departments of our businesses. In a nutshell: All ways will take us to NGN (whilst it appears rather unclear to what extent the consumer will be part of and linked to the NGN.)

Despite that clear situation, the path towards NGN's and a competitive environment supportive to innovation appears completely open (and I think that is why we are here). However, it is our understanding and belief that the Federal Ministry of Economics as well as the Federal Network Agency have the duty

- to carefully observe the development
- to allow for an open discussion amongst all market participants
- and in order to do so provide the market with transparent information

What benefit will an innovative, quality and high bandwidth based network stand for?

Well, when ISDN was introduced, you might remember that potential benefits were rather vague. Here we know better: The tendency is

- towards IPTV
- towards a more active (interactive) end user
- towards products like youtube where consumers participate in designing content (Social Web)

We are convinced that our TV offer will meet that tendency as well as consumer expectations. It is thus part of our reaction to VDSL.

As of today we do not identify a technical need to expand bandwidth up from ADSL2+ where we are today. We understand that DTAG is now of the same opinion when they announced to offer their T-HOME also via ADSL2+..

II. REGULATORY CONDITIONS

When we talk about the deployment and development of a NGN, we must distinguish between the higher network levels, may be the core network and the access of a customer to the NGN. The latter one is the playing field for VDSL. I shall come back to this in a minute.

What has been the situation in Germany in the past?

We think regulatory conditions have set incentives for investors to invest into infrastructure. Effective unbundling of the local loop has been a prerequisite for the investment as made by Telecom Italia into HanseMet. We recognize the positions as being taken by former RegTP in the precedent unbundling decisions.

Turning to today, what has changed?

We face a situation where the incumbent is investing into a VDSL based access network exactly in the densely populated areas where you would all agree with me that the level of competition is already very high.

What does that provoke?

Well, competitors like HanseNet but also Arcor or Versatel will be forced to invest again in those areas. It goes without saying that the investments made here are not available for other areas where there is no DSL at all.

Our calculations have shown that VDSL is not fully replicable by us. From an urban planning and environmental point of view such replication is even almost impossible. Not being able to replicate is a threat to the business model based on unbundling the local loop. Given that, we must start again and ask the question:

How must access be granted?

Well, presumed that the importance of the MDF's will decline (and I think this is sth we would agree upon here), the answer is that access to street cabinet must be provided. In addition bitstream access down from the MDF is an alternative or cumulative option (may be we want to talk about this later).

Let me give you an example:

In the Netherlands the PSTN network is said to be abolished by 2010. Instead KPN will have completed an ALL-IP network by then. As a consequence the number of MDF's will fall from 1381 down to 200. Scaled to Germany we would reduce the number of MDF's from today's 7.000 down to about 1.000 hampering severely our investments as being made here.

What does that mean?

Well a potentially desirable process where the number of MDF's will be reduced requires careful regulatory supervision. Otherwise a remonopolisation of the access network will occur and a pure service competition amongst resellers will prevail with all negative consequences. Furthermore we and the Regulator need to answer the question: What next?

Well, we do not know to what extent we can link street cabinets to our network today since too many parameters are unclear. What can be said however, is that out of today's 250.000 street cabinets the majority can not be linked in an economically feasible way. Consequence: We need a solution down from the MDF's where we are today. Most favourable would be a hybrid fibre solution under the umbrella of market 11. A – weaker – alternative could be an IP-bitstream - also down from the MDF's where we are today.

Finally: Investments in additional MDF's are at risk. We should remember that full unbundling has been quite a story of success in Germany. Only recently it has been fully identified and appreciated by the EU which has always campaigned for BSA in countries where full unbundling was less successful.

Consequence: Here, too the Regulator must apply all caution when taking single regulatory decisions affecting the situation in the access market. (ULL, BSA).

3. DIGITAL DIVIDE

This is a bit of a bitter pill we have to swallow. NGN realizing the full potential of bandwidth (by VDSL) will not reach all consumers simply because investments in the access network do not pay off everywhere. We agree with the optimistic statement as being made in the conference materials that gives a 70% estimation for NGN penetration.

What does that imply?

First, a social debate cannot be avoided since the already well known digital divide situation will be further entrenched. New access technologies in particular VDSL will have no impact on the situation in the so called rural (but not unpopulated!!) areas.

Second, we as an operator will be forced to focus even more on the already quoted central areas. The true nationwide operator might then become an endangered species.

Third, out of the regions as described above, DTAG might be the sole market participant allowing resellers to participate within their controlled wholesale business.

4. CONCLUSION

NGN's will hopefully be quite beneficial to the majority of the population allowing new services where the quality issue might be solved by defining quality classes.

Maintaining infrastructure based competition here– on top of the letter of investment – is not only a business but a huge regulatory challenge.

DTAG is just walking the opposite direction when proposing a so called ALL-IP product on a voluntary basis. This wholesale offer is made off a naked DSL access + Online Connect + a voice service. Using a proprietary platform it is designed for Resellers and shall in our view anticipate the expected BSA-product which will be governed by the Regulator. As with VDSL, this offer is of limited reach, namely 750 cities equivalent to 60% of the population and also equivalent to the areas where there is strong competition already.

It will be upon the Regulator to examine margin squeezes in order to achieve a consistent pricing in the upstream markets

Or As Matthias Kurth President of BNetzA stated recently:

“Encouraging competition in markets dominated by former monopoly providers and in which the network ... plays a central part, requires long term strategies, consistent action in access issues and predictable, economically based regulation (M. Kurth)”

Applied to NGN access networks, we could not say any better.

Thank you for your attention.