Ó Paul Budde Communication Pty Ltd

New Zealand - FttH Planning

1. SYNOPSIS

New Zealand is determined not to end up in the mess the Australian government has manoeuvred that country into, with regards to its national infrastructure. The fibreing of New Zealand requires a combined effort from the government and the industry. The government's $1.5 billion proposed network, is a good starting point, but there is still no evidence that Telecom has fully embraced the new wholesale direction that would be a key ingredient of an open access plan. It will be crucial that any FttH plan of the new government ensures that cabinetisation is part of a roadmap that leads the country towards the deployment of FttH. Once sound unambiguous government policies have been agreed upon, they need to backed-up by regulations. Then an expert panel can develop an infrastructure blueprint indicating what infrastructure makes sense where.

2. CHANGE IS NEEDED

Having met many New Zealand industry and government leaders during my recent visit there, one thing is certain – they are determined not to end up in the mess the Australian government has manoeuvred that country into.

The new government has put $1.5 billion on the table to support open FttH networks and it is now up to all those involved to achieve this goal.

This is a good starting point, but at the same time New Zealand has a similar problem to the one Australia is facing – how to get its incumbent operator (in their case, Telecom) to change without totally disengaging them.

One of the key analyses in our recent reports on the New Zealand market is that, while operational separation has been introduced and changes for the better have taken place, there is still no evidence that Telecom has fully embraced the new wholesale direction that would be a key ingredient of an open access plan. Interestingly, while better wholesale arrangements are available from Vodafone and Orcon, Telecom is still dragging its feet in relation to introducing good quality ADSL2+ wholesale services. And in the process hundreds of thousands of lines have now churned away from Telecom to the other players.

There is further evidence that wholesale is not high on Telecom's agenda. It is not the market leader in mobile yet, while we acknowledge that mobile does not fall under the operational separation regulations, it has not used the wholesale opportunity to enrol other telco retailers to help it to sell the new 3G network.

We believe that this would be one of the few ways available to launch a combined attack on Vodafone dominance in this market – in our opinion, a missed opportunity.

See also:
New Zealand - Wireless Broadband - Statistics, Overview & Providers.
New Zealand - Broadband - Statistics, Overview & Providers

3. WILL CABINETISATION BE AN FTTH BLOCKAGE?

Part of the operational separation plan is Telecom's cabinetisation program (this is how they refer to their FttN rollout). Within this plan there is room for others to participate, and also the copper loop will remain available for DSL type of services.

So that is certainly all good news. Also, by December 2008, access prices to the cabinets (nodes) will be made public.

However, we need to remember that the type of services that are now becoming available to New Zealanders (VDSL) are the same services that started to become available in Europe in 2003. In the meantime, in the rest of the developed world, the focus has changed from FttN to FttH.

It will be crucial that any FttH plan of the new government ensures that cabinetisation is part of a roadmap that leads the country towards the deployment of FttH. Those cabinets can easily become blockages if they are not properly positioned in such an FttH roadmap.

See also: *New Zealand - Infrastructure - NGNs and FttH*

4. NO NEED FOR ONE NATIONAL APPROACH

So, how does the industry engage Telecom and still ensure that the national roadmap supports open access, point-to-point connections with total end-user control over the services these people want to use – and, importantly, in an unbundled way? Obviously Telecom would like to retain as much control as possible, and that is where the tension lies.

Another consideration is how long people are prepared to wait for true high speed broadband.

Governments are increasingly coming to an understanding of the social and economic benefits of the digital economy.

Digital infrastructure is also needed to stimulate the broader economy, to address some of the climate change issues (smart grids), alleviate some of the national health problems (e-health) and provide better education and training services (online services). If a single company undertakes such a massive infrastructure project it could take many years to complete.

Around the world governments are becoming impatient about the lack of FttH progress. Naturally commercial companies will look at the low-hanging fruit first – markets where they can generate high ARPUs and/or where FttH is easy to roll out, and this might not necessarily be in the national interest.

In the USA we now see cities where some suburbs get FttH and others don't, simply because it makes more economic sense to Verizon. This is already creating social tension in some of these cities, between the haves and the have-nots.

In order to move forward faster more companies need to be involved in the construction of the FttH network. By splitting up the rollout we can speed up the deployment.

See:
Global - Broadband - Regulating Fibre Access
New Zealand - Convergence & Digital Media;

5. CITY-LED FIBRE DEPLOYMENT

One of the options we discussed in New Zealand is to use the NZ$1.5 billion to stimulate local governments to play a key role in building this infrastructure (New Zealand doesn't have States or Provinces).

BuddeComm has been involved with both Auckland and Wellington City Councils and both of these have been talking about their role in this infrastructure program for over two years. However they are risk-averse and could use some support from the Federal Government to alleviate this problem.

Thanks to some earlier, less successful, regional broadband projects most of the regional councils have, over the last five years, also been involved in the thinking process behind this concept, and most have at least participated in trials and pilots.

Since 2001, BuddeComm has been conducting workshops themed 'Broadbanding Local Communities' (see *Australia - Municipality Broadband*) aimed at providing the strategies needed to address this issue.

The country is ready to use this layer of local government to spearhead fibre into its market. Federal Government support is now needed, plus a good overall roadmap that will put all of this together.

Such an approach would also break down the complexity of such a rollout. Telecom, Kordia, TelstraClear, Vodafone, Citylink, FX networks, construction and real estate companies and utilities can all participate and help to finish the job.

See also: *New Zealand - Infrastructure - NGNs and FttH*

6. MEET-ME-POINTS AND ACCESS PRINCIPLES

Telecommunications is a highly standardised industry and this makes it possible to break the job up into smaller parts and still end up with a well-connected national network.

A key element of this plan could also be that home-owners get an option to own their final fibre tail into their homes. This would increase the value of the property, hence the involvement of real estate companies. Furthermore it puts the end-user in control of what sort of services are coming into the house.

The roadmap should also indicate where the meet-me-points are so that all the infrastructure builders form part of the national network, using a set of wholesale access principles, already defined at a high level, to arrange for interconnection.

See: *Global - Industry - Wholesale Markets*

Of course, this also brings the international, national and regional backbones into the picture. New Zealand is well served and so most of this is in place already and can be readily used. Interconnection, where it doesn't already occur, can fairly easily be governed by telecoms regulations.

The roadmap will also show if there are gaps in this backbone network, and if these include economically unviable links then the $1.5 billion fund could be used to fix it. The international connection has already been earmarked by the government as a weak link and plans are currently underway to address that issue.

7. PLAN OF ACTION

The fibreing of New Zealand requires a combined effort from the government and the industry.

The deplorable situation in Australia is teaching us that government leadership is crucial to start things off. The reality is that money is not the key issue. The issue is the necessity for sound unambiguous government policies. Once these policies have been agreed upon they need to backed up by regulations, to make it all happen and to provide the reference for developments further down the track when possible disputes will occur.

After the policies have been formulated an expert panel of engineers from the various players can develop an infrastructure blueprint indicating what infrastructure makes sense where. They will also be able to pinpoint missing links.

If, under the leadership of the Commerce Commission, the industry can be persuaded to self-regulate on issues such as wholesale access principles then fewer government enforced regulations will be required. However if such voluntary arrangements are not reached strong government action will be required, similar to the kind of action the government was prepared to undertake in relation to the functional separation of Telecom.

Paul Budde

Note: all $ are NZ$ unless otherwise stated.

8. RELATED REPORTS

For more information relating to New Zealand's telecommunications market, see separate reports:
- *New Zealand*;
- *Companies in New Zealand*;

For more information on triple play models and convergence, see separate reports:
- *Global - Digital Media*
- *Digital Media*

For information relating to:
- Worldwide activities in the telecommunications industry, see: *Global Overviews*;
- Technical information relating to the telecommunications industry, see: *Telecommunications Technologies Library*.

5385 George Downes Drive, BUCKETTY NSW 2250 AUSTRALIA
Telephone: +61 2 4998 8144 Fax: +61 2 4998 8247
Email: pbc@budde.com.au Web: www.budde.com.au