



Second-Class Broadband for BT Customers in the UK

By Steven S. Ross ■ *Editor-in-Chief*

The UK is on the way to be coming a third-rate economic power.

Echoing AT&T's business strategy, BT (formerly British Telecom) is foregoing fiber to the home in favor of fiber to the neighborhood. ADSL2+ over copper will carry the signal for as much as 3,000 feet to home-based customers. "I really don't see a business case for widespread FTTH," said Paul Reynolds, VP in charge of BT Wholesale. Speaking at the DigiWorld Summit in Montpellier, France, he also said "It is not immediately apparent where the incremental revenue would come for that investment."

BT's all-digital 21CN project, which carries its first customer traffic at the end of November, will offer bandwidth as high as 24 Mbps. It is a substantial improvement over the existing switched network in other ways as well – customers get new services faster, and the FTTN network is expected to save about \$2 billion a year starting in mid-2008.

But is it really good enough? HDTV alone will soak up two-thirds of the maximum customer bandwidth available to a home. Then there's interactive gaming, peer-to-peer data transfers, all those YouTube downloads, telepresence, telemedicine, and on and on.

This all adds up to a lot of bandwidth, but maybe not a lot of profit in the UK. There, as elsewhere, the price vendors can charge for basic commodity video, voice, and data services continues to decline. Verizon will probably spend about \$14-16 billion to pass 18 million homes with FTTH by 2010 (and more to hook up paying customers). AT&T's LightSpeed was expected to cost about a quarter of that per household passed – for about a quarter of the bandwidth now and no cheap way to up the bandwidth in the future. Its costs will probably be higher.

Maintenance Savings

FTTH is much cheaper to maintain as well. Bernstein Research estimates Verizon will save about \$114 per connected line, or 61 percent of the comparable costs in a legacy copper network. AT&T would save about half that per line with VDSL fed by FTTN. Connecting a FTTH customer now costs about \$1500 to pass a home and hook up, so maintenance savings alone would pay for Verizon's buildout, assuming a take rate of 80 percent or higher. That's unlikely now, but could be a reality in 10 years. In the meantime, of course, Verizon will make more from serving even today's triple play over the network.

The real leverage will come from new services, most of which do not even exist today. Remember, YouTube went live in February 2005, and now serves 100 million videos a day.

One also wonders where BT gets its information. FTTH Council president Joe Savage wrote to Preston Gralla's blog saying "I was at the session in France last week during which Mr. Reynolds made his comment about FTTH being too expensive. He also cited a cost of \$6,000 per subscriber – a figure four times higher than Verizon's experiences to date. So, his cost estimates are obviously skewed to show FTTH as very expensive. And, Verizon is not alone in pursuing fiber to the home. NTT has more than 3 million FTTH subscribers and DSL subscriptions are declining while FTTH subscriptions are climbing rapidly [in Japan]."

"On the issue of FTTN vs FTTH, France Telecom has shifted their strategic direction to FTTH. And, AT&T, now more than one year behind schedule on Project LightSpeed, is finding FTTN costs to be much higher than their budgeted CapEx estimates that you cite in your posting. FTTH will save Verizon, not kill it."

AT&T Motives

Leonard Ray of Atlantic Engineering Group said, "Verizon is a visionary competitor while the monster of AT&T, BellSouth, and SBC is a monopolistic Neanderthal. First, under ideal situations, FTTN (assuming VDSL technology is deployed) can provide faster data rates than ADSL (but no where near that of FTTH). But AT&T will never be able to offer a cost-effective and competitive video package on FTTN (despite what their lobbyists say). ... if they scrap FTTN (which will happen), Bell South will have to admit that Peter Hill's moronic strategy of FTTC was a massive waste of money, which it was (I live in Atlanta, have BellSouth FTTC available but only can get 1.5 Mbps).

"No Incumbent in my lifetime has ever done what they said they were going to do (aside from suing competitors out of business). Verizon should be praised for its decision to deploy FTTH. I firmly believe the public, Wall Street, and subscribers will reward Verizon for its brilliance."

As for BT in the UK: 20 years ago, the Thatcher government was the first to allow phone companies to deliver video. At the time, many there could not imagine any household buying more than 12 video channels. But government policy prevailed. What happened to the vision? **BBP**

steve@broadbandproperties.com