

TIA Advocates Video Franchise Legislation Reform at September 14th Press Briefing

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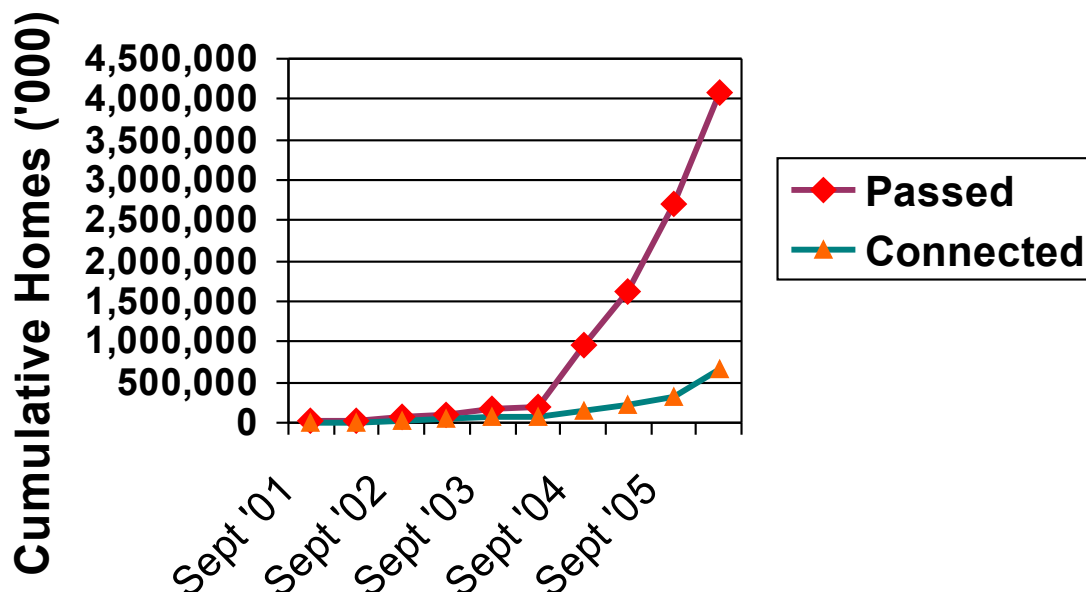
At a September 14th Press Briefing, **Telecommunications Industry Association (TIA)** executives and representatives from three communications technology member companies (Tellabs, Corning, and ANDA Networks) urged the U.S. Senate to pass Senator Ted Stevens' (R-Alaska) video franchise legislation. That legislation would relax the existing rules requiring telcos to obtain video franchises for each community served. [The telcos would like to just get one national franchise and be able to serve all communities.] Moderator and incoming Chairman **Robert Pullen** of **Tellabs** (Senior VP of Global Sales) stated that the TIA would like the Senate to pass the bill this year.

It was claimed that if this legislation becomes law, it would help the United States increase broadband and video deployment, bolster innovation, give rise to new services and more competitive pricing. It would also help the U.S. compete against other nations in a world that has become economically dependent on fast and reliable telecom infrastructures. This legislation is even more crucial, given the pace of broadband deployment by Iceland, Finland, Korea, Taiwan, and other countries whose broadband deployment penetration statistics far exceed those of the United States (especially on a per capita basis). If the legislation does not pass or is delayed by bureaucratic wrangling, the pace of broadband deployment will slow, video services will be more expensive, and the U.S. consumer will be the ultimate loser.

According to TIA, the U.S. is now embarking on the second stage of broadband deployment, driven by residential video services. The first stage, now well underway, was the shift from dial-up Internet access to current generation (DSL or cable modem based) broadband access -with typical download speeds of 1.5M bps-to-5M bps. The second broadband technology shift is from current-generation to next-generation broadband access, characterized by another 20-fold capacity increase - from 1.5 Mbps to as much as 25-35 Mbps. For a single home, we have the following bandwidth scenario:

2 phone lines = 128 kb/s
1 online shopping & banking = 1.5 Mb/s
1 online gaming = 3.0 Mb/s
1 TeleWorking (or Learning) = 5 Mb/s
1 VOD / PVR = 5 Mb/s
2 Standard DTV = 4 Mb/s compressed
2 HDTV = 16 Mb/s compressed
Total bandwidth: 34.6 Mb/s

→This greater than 10X increase in bandwidth per home will necessitate fiber closer to the customer-either FTTP or FTTN. But the telco has to be able to offer the video services without cumbersome franchise agreements, according to the TIA.



As video services continue to motivate telcos to increase second stage broadband deployment (FTTP and FTTN), it becomes essential for video franchise reform be in place to encourage new investment and accelerate the time to revenue.

Danielle Jafari of TIA provided the following information after the press conference:

“The Stevens bill is not a national franchise, as is the House bill. The Stevens bill is much more state-friendly. It streamlines the video franchise process and merely sets a "shot-clock" for the application process within each local franchise authority (LFA). The telco must still apply for a franchise at each LFA, as did the MSOs, but the applicant will receive approval on an expedited basis. Third, a cable operator can opt for a streamlined franchise if there is a competitor in its market. Lastly, the Stevens bill respects and allows new entrants and telcos to opt into existing state franchises, if available.”

Larry Aiello, Jr., President and CEO, **Corning Cable Systems** stated that de-regulation has historically driven (telco) broadband deployments. The February 2003 FCC-**TRO (Triennial Review Order)** ruling, which removed the restriction for telcos to resell their newly deployed fiber infrastructures and unbundled network elements to competitive carriers at discounted prices) was cited as an example. The result has been a sharp increase in fiber to the premises (FTTP) build outs – from almost nothing at the end of 2002 to over 4.1M homes passed today.

Author’s Note: We wonder how much of FTTP deployment was stimulated by TRO versus the need to compete with MSO’s offering triple play services to residential customers. This seems to be a question for Verizon. Further, we don’t think TRO had much of an impact on the independent telcos who were already planning to offer video services.

The graph below depicts **FTTP deployment** - before and after the **FCC TRO**:

In states where streamlined franchising became law, there has been considerable growth in broadband. In Texas, for example, the number of FTTP communities grew from 82 in November of 2005 to 160 in May, 2006. The passage of Indiana’s streamlined video

franchising legislation was followed by a \$250 million investment announcement by AT&T in May, 2006. The bottom line is that video franchise regulation speeds deployment and encourages investment in new infrastructures.

→TIA believes that if the Senate were to act decisively and pass Stevens' video franchise legislation this year, then deregulation could be the big driver for second stage broadband deployment in the U.S.

TIA also urged the Senate to not use the controversial net neutrality issue as a barrier to prevent the innovation, investment and economic growth opportunities that video franchise legislation-driven broadband deployment could facilitate. Pullen said that adding net neutrality issues to the legislation would harm consumers by resulting in slower deployments, less competition and higher prices for video and other high-speed services.

Charles Kenmore, President and CEO, **ANDA Networks**, a Silicon Valley-based network equipment company, argued that passage of Stevens' video franchise legislation could accelerate convergence via next-generation deployment -- without cumbersome regulation. According to Kenmore, "The days when legislation and regulation could assume distinct services running over distinct technologies and networks are disappearing fast...let the market decide."

The largest **WiMAX/ WiFi backhaul** network in North America - Inukshuk, Ontario, Canada- was cited as an example of the positive effects of deregulation. As a result of deregulation, business and residential end-users have alternatives for high- speed broadband access using WiMAX/Wi-Fi (or EV-DO/CDMA) for wireless broadband offerings within communities not typically serviceable by Cable/DSL.

This high bandwidth access network enables value-added services such as VoIP, video conferencing, music, and rich media. Other possible rich media applications were said to be podcasts and video (e.g., V-Cast, and MobiTV).

Deregulation will result in the addition of new broadband on-ramps to the Internet super-highway, Kenmore asserted.

According to **Greg Gum**, VP of Marketing and Business Development at ANDA Networks:

"Ontario and Canada specifically allowed for several WiMAX "pioneer" licenses which gave certain applicants new licensed spectrum to offer new wireless broadband services to the "disenfranchised" (rural and remote communities) like Inukshuk that could not get broadband internet easily. The Canadian government viewed this new consortium between Bell Canada and Rogers as a new method to promote multimedia, rich content development thru wireless broadband to accelerate the technology for distance learning, mobile applications, etc."

The following excerpt is from a press release on the spectrum details:

"Rogers currently controls and will contribute to the joint venture its entire broadband wireless spectrum in the 2.3 GHz, 2.5 GHz and 3.5 GHz frequency ranges. Bell controls and will contribute to the joint venture all of its broadband wireless spectrum in the 2.3 GHz and 3.5 GHz frequency ranges.

Separately, Bell has reached an agreement with companies controlled directly or indirectly by Craig McCaw under which Bell will acquire the remaining 50 per cent of NR Communications that it does not already own. NR Communications and a subsidiary of Rogers are the two partners in the current **Inukshuk joint venture** which holds approximately 98 MHz of wireless broadband spectrum in the 2.5 GHz frequency range across much of Canada.

Spectrum transfer approvals from Industry Canada, completion of Bell's acquisition of Craig McCaw's interest in NR Communications, and other customary closing conditions are expected to be straightforward."

Robert Pullen of Tellabs called our attention to the fact that the U.S. is lagging other countries badly in broadband deployments. He showed a chart from the ITU depicted below. The message loud and clear was: let's pass this legislation this year so as not to fall further behind other countries! Please see figure below:

