



iiNet Limited

**Submission to the Department of Communications, Information
Technology and the Arts**

**Broadband Connect and Clever Networks:
Supporting Investment in Sustainable Broadband Infrastructure**

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1.0 Introduction

iiNet welcomes the opportunity to make a submission to the Department of Communications, Information Technology and the Arts on the Federal Government's Broadband Connect and Clever Networks program.

This submission provides our response to the Broadband Connect and Clever Networks: Supporting Investment in Sustainable Broadband Infrastructure Discussion Paper issued by the Department in November 2005.

2.0 Background: iiNet Limited

iiNet is one of Australia's Internet service pioneers having been founded in 1993. Over its 12 year history iiNet has grown to become Australia and New Zealand's third biggest Internet Service Provider (ISP) and Australia's fifth largest telephony provider, with approximately 690,000 subscribed services and over 800 employees.

iiNet was the first organisation in WA to offer dialup Internet access to the public.

Through the strategic acquisition of a number of ISPs including ihug in New Zealand and OzEmail in Australian, iiNet now has offices in Perth, Melbourne, Sydney and Auckland, and in the last financial year posted profits of \$16.9 million.

iiNet listed on the ASX in 1999 and provides a variety of services to its customers including analogue dial up, broadband, Voice over Internet Protocol (VoIP) and other telephony services. iiNet has also invested heavily in infrastructure with over 70,000 customers currently connected to its own DSL network and over 200 active DSLAM's installed in Telstra exchanges nationwide by the end of 2005.

A DSLAM (DSL Access Multiplexer) is specialized equipment deployed into existing telephone exchanges and enables customers to receive much faster ADSL speeds. Faster broadband speeds allow for content-rich functions such as music and movie streaming, IPTV, and video on demand.

iiNet was the first ISP in Australia to widely launch ADSL2 with speeds of up to 12,000 kbps, and in August 2005, the first to offer a large-scale national Voice Over Internet Protocol (VoIP) service. VoIP enables customers to save money by making and receiving calls via the Internet instead of using the traditional copper telephone network. In less than six

months iiNet has over 15,000 VoIP subscribers who logged over one million minutes of call time in November 2005 alone.

Recently the company introduced broadband2+, an ADSL2+ standard service, which provides speeds of up to 24,000kbps – the fastest speeds currently available in Australia.

iiNet has been widely recognised for its achievements, such as:

- Winner of the Excellence in Competition and Growth award for its broadband2 product range from the 2005 *SPAN* and *CommsDay* Awards;
- New Zealand ISP of the year from *TUANZ* in 2005;
- Best Broadband Plan from *Money Magazine's* Best of the Best in 2006;
- Top ISP for Overall Customer Service by an *AC Nielsen Poll* in 2003.

iiNet has developed into an impressive challenger in Australia's telecommunications sector, championing competitive growth and demonstrating a strong commitment to delivering high quality, innovative services to its customer and shareholders.

Rural and Regional Australia

iiNet has over 30 percent of its customers in rural and regional Australia and wishes to continue increasing its subscriber base in these areas.

3.0 Broadband Connect

3.1 Introduction

Whilst iiNet welcomes the Government's decision to commit additional funding to ensure there is equitable broadband access for rural and regional Australians, we feel the program does not address the fundamental issue of supporting increased competition to these areas.

iiNet believes that Broadband Connect will continue the entrenchment of Telstra as the dominant telecommunications company providing broadband services to rural and regional Australia.

The HiBIS scheme failed in encouraging alternative ADSL providers from registering with the scheme and we are concerned that Broadband Connect has not been developed with any significant changes to the program, particularly in providing a

scheme which factors in issues such as the ongoing costs of backhaul to Telstra's competitors.

In its current proposed form the Broadband Connect program has the potential to significantly reduce competition by subsidising the already dominant carrier.

Telstra's recent decision not to participate as a wholesale provider in Broadband Connect demonstrates that Telstra will look to use the program as a way of further entrenching its retail dominance in rural and regional areas.

Some of the issues that iiNet believes need to be addressed to make the program more successful are outlined below:

3.2 Issues for Consideration

iiNet believes that the single biggest stumbling block to equitable broadband services being introduced to rural and regional Australia at competitive prices is the cost of backhaul where there is no wholesale competitor to Telstra.

In many of the rural and regional broadband black spots, which the Broadband Connect program wishes to target, the only wholesale backhaul service is Telstra. Telstra continues to be uncompetitive in its pricing therefore making it impossible for DSL Network operators to see any value in developing infrastructure in these areas.

The one-off subsidy payment that will be offered under Broadband Connect is quickly offset against the disproportionately high and ongoing costs of serving backhaul charges from Telstra.

Similarly the Broadband Connect program does not place any impetus on those companies seeking the subsidy to look at providing innovative products to rural and regional customers, in particular high speed broadband services.

If one of the main objectives of the Broadband Connect program is to enable rural and regional customers the opportunity to have equitable services at competitive prices then some consideration should be given to what is on offer in metropolitan markets.

iiNet has recently introduced ADSL2+ which provides customers on our DSLAM network with download speeds of up to 24,000 kbps.

In comparison Telstra is only able to offer, at best, 1,500 kbps broadband service. The HiBIS scheme has allowed Telstra to deliver the minimum standard required to meet the program.

The key to ensuring that rural and regional Australia receive comparable services is to encourage the development of network infrastructure.

3.3 Focus of the Broadband Connect Program

Ultimately, iiNet believes that the Broadband Connect program has the wrong emphasis; rather than being designed to be pro-coverage, we believe that it should be pro-competition.

Greater competition will enable better penetration of services into rural and regional areas, as well ensure that these communities have access to significantly better and innovative broadband products.

4.0 Clever Networks

4.1 Introduction

As Broadband Connect appears to be focused on ADSL coverage; we would contend that the aim of the Clever Networks program should be focused on increasing wholesale competition.

In this way iiNet believes that the Clever Networks program has the potential to ensure that rural and regional Australia will benefit from all that competition brings; better, innovative services at cheaper prices.

4.2 General Issues for Consideration

Currently iiNet offers the fastest broadband speeds in Australia with its ADSL2+ product, which is delivered by our DSLAM terrestrial network. All of our data centers are in capital cities.

iiNet's major stumbling block (as outlined earlier in this submission) is the cost of backhaul. As there is only one supplier – in almost all cases Telstra – and backhaul is typically priced using a distance formula, the costs to provide services to regional customers are directly proportional to the distance from the capital cities.

For example, even for major regional cities less than 100 kilometres from capital cities, such as Rockingham in WA or Geelong in Victoria, the average cost per customer per annum for backhaul can be anywhere between \$300 and \$1000. Costs run much higher for increased distances from capital cities.

Therefore purchasing backhaul services is not an option for Telstra's competitors as the resulting operating costs result in a cost structure much higher than Telstra's retail offering - and therefore destroys any business case.

Indeed, the high cost of backhaul has been the significant factor in iiNet not participating in the HiBIS scheme. Similarly, it has restricted the deployment of our DSLAM network to metropolitan areas (where backhaul costs are more affordable). However iiNet would like to like to expand this network to rural and regional areas where 30 percent of its overall customer base is located.

4.3 Focus of the Clever Networks Program

We believe that Clever Networks should focus on introducing wholesale competition to rural and regional telecommunications infrastructure.

The test that should be applied for funding requests should not be about whether there is backhaul; but rather whether there is wholesale competition or not.

In other words the program could be designed to directly stimulate competitive entry to dilute Telstra's continuing dominance of rural and regional Australia.

Approximately six out of ten metropolitan broadband users¹ choose a service provider other than Telstra. iiNet submits that rural and regional broadband users, if given the choice, would do the same also.

If the policy objective of Clever Networks is to 'improve network reach and competition within a more coherent and commercially sustainable environment', then it needs to focus on enabling the development of alternative backhaul infrastructure to compete against Telstra.

¹ Frost and Sullivan's market report, "The Australian 'at home' broadband market 2005" identified Telstra as having 34 percent consumer broadband market share.

This will enable companies such as iiNet to reach these communities and provide an alternative service to Telstra, offering faster speeds, product innovation and competitive prices.

This meets Clever Networks' other stated objective of 'supporting the deployment of new technologies as they evolve; for example higher bandwidth services, mobile broadband and wireless services.'

4.4 Strategic Partnerships

iiNet believes that it can collaborate in strategic partnerships with transmission builders, such as PIPE Networks, Amcom Ltd and Powertel Pty Ltd, to best support the Clever Networks program.

ISPs, such as iiNet, have customers in rural and regional areas that would like additional bandwidth. Also, with the assistance of the broker's network, we can identify areas where there is a business case with support from Clever Networks to provide our ADSL services.

In collaboration with transmission builders, iiNet believes there is the opportunity to provide a more qualified and detailed analysis of commercial opportunities that meet the criteria of Clever Networks. Particularly as transmission builders are obviously not inclined to build transmission infrastructure, such as backhaul, without guaranteed revenues.

4.5 Network Development and Access

Critical to the success of Clever Networks supporting 'new technologies' and 'improving network reach and competition within a more coherent and commercially sustainable environment' will be the nature of network infrastructure development and access.

In terms of infrastructure Clever Networks should concentrate on two aspects:

Dark Fibre Solutions

Dark fibre enables iiNet and other competitors to provide superior products, such as ADSL2+ with speeds up to 24,000 kbps

Dark fibre is laid fibre optic cable without any form of electronics added. In this respect it is similar to ULL over copper. No services

are provided over the cable and it is run entirely by the service provider.

Access

Additionally iiNet supports open access to any new dark fibre backhaul infrastructure built. This will promote fair competition and ultimately ensure that new infrastructure and the provision of services meets the Clever Networks' objective of being commercially sustainable.

Below is an example of an indicative timeline:

February '06

- iiNet produces a list of regional exchanges which require affordable backhaul
- Prepare tender document for competitive offers from transmission builders

March '06

- Select successful bidders(s)
- Submit to Clever Networks for capital expenditure funding

April/May '06

- Commission build

5.0 Concluding Remarks

There is no doubt that Broadband Connect and Clever Networks represent, for the first time, the opportunity for the Australian Government and Industry to make a significant difference to the betterment of broadband provision in rural and regional Australia.

Unfortunately Broadband Connect, in its current form, does not address fundamental issues relating to the cost of wholesale backhaul provision for providers such as iiNet, given the virtual monopoly Telstra has in rural and regional Australia.

However, Clever Networks is the opportunity to address that problem and create fair competition.

As the two programs stand iiNet believes that the Clever Networks program has the greater opportunity of ensuring a more competitive landscape which is commercially sustainable and therefore, in the longer term, having a greater impact on the future benefits broadband will bring to the rural and regional Australia.

In an ideal world we would suggest that the level of funding for each program be reconsidered and a greater proportion be committed to the Clever Networks program.

Thank you for the opportunity to comment on these programs.

6.0 Contact

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