

Submission to

DCITA

on

Broadband Connect Discussion Paper

18 January 2006

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1. Overview

Broadband Connect

- 1.1 Broadband Connect is a \$878 million telecommunications funding commitment to ensure that all Australians can access equitable broadband services. It will target 1.6 million homes, small businesses and not-for-profit organisations in regional, rural and remote Australia.
- 1.2 The objectives of the program are to:
 - Support equitable access to broadband services for residential, small business and not-for-profit consumers in regional, rural and remote Australia;
 - Provide incentives payments to reflect market cost structures and promote competition;
 - Facilitate broadband delivery through cost effective and sustainable technologies;
 - Target funding to demonstrated need; and
 - Ensure high cost delivery areas receive services at comparable prices to metropolitan areas.
- 1.3 The Broadband Connect program will operate in parallel with the Clever Networks program to stimulate investment in areas where the market requires additional incentive for providers to build a business case to make investments in broadband infrastructure.
- 1.4 The funding is available until 30 June 2009.

Optus' existing broadband presence

- 1.5 1.5 Optus currently has 458,000 broadband customers, an increase on the previous 12 months of 94%. 262,000 of these customers are served via the Optus Hybrid Fibre Coaxial (HFC) network and 196,000 of these customers are serviced via resale DSL.
- 1.6 On 22 September 2005, Optus announced it will invest over \$150 million in Digital Subscriber Line Access Multiplier (DSLAMs) and fibre connections from the exchanges back into the main Optus network. This new competitive network will reach an additional 2.9 million households and businesses, adding to our existing cable footprint which passes 1.4 million homes in Sydney, Melbourne and Brisbane.
- 1.7 The new DSL services will extend Optus' footprint to reach Adelaide, Perth and Canberra. Optus has rolled out to 70 exchanges and expects to have rolled out DSL to almost 100 exchanges by April 2006. The expansion will extend Optus' services to units and apartment blocks within the new footprint.

- 1.8 Optus is also a retail/wholesale provider of satellite services and has a strong satellite broadband presence through its relationship with a range of government and private sector organisations.
- 1.9 Under the Higher Bandwidth Incentive Scheme, Optus has sold over 900 Optus Broadband Satellite services.

Optus' strategy for rural, regional and remote access to broadband

- 1.10 Optus' strategy for delivering services to regional, rural and remote Australia is to:
- Expand the reach of the Optus network through effective partnerships and funding assistance that generates sustainable services, such as HiBIS and agreements with Commonwealth, State and Territory Governments and private organisations;
 - Resell Telstra's DSL broadband services throughout Australia to establish a market presence and to improve the commercial viability of extending the Optus broadband network.
- 1.11 Optus sells HiBIS satellite services at the retail level through channel partners, that sell Optus branded satellite products and at the wholesale level through four wholesalers that rebrand Optus' HiBIS satellite services as their own.
- 1.12 Optus has a track record of extending its broadband network through preferred supplier agreements with State Governments. An example is the five year SmartNet initiative Optus has entered into with the Queensland Government. SmartNet created an opportunity for Optus to extend DSL network infrastructure to an additional 30 sites throughout regional QLD towns.
- 1.13 Optus utilises Telstra resale services, both local call resale and DSL resale, to build a customer base, which we plan to transition to ULLS based services where we can be much more competitive. This strategy is well developed with Optus' commitment to extend its DSL network and its commitment to transition customers across to the Optus network already underway.

2. Executive summary

Leveraging maximum results from the funding packages

- 2.1 Optus believes the Government should explore a number of alternatives to test the variety and breadth of telecommunications propositions from carriers to deliver competitive telecommunication's services to rural, regional and remote Australians.
- 2.2 At the outset the Government should:
- Stimulate creative solutions by calling for 'expressions of interest' from interested parties on delivering a comprehensive rural, regional and remote telecommunications package. The 'expression of interest' would detail:
 - the number of households to be reached by the proposal;

- the technology or matrix of technologies to be utilised;
 - the estimated cost of the subsidy required and how the options for the delivery of the subsidy to carriers and/or consumers;
 - what access, if any, competitors may have to infrastructure;
 - the contribution to be made by the telecommunications carrier;
 - the timeframe and network rollout commitment to be agreed by the carrier; and
 - the nature of any commercial and Government partnerships to deliver the proposal.
- Maximise the impact of the funding by allocating large proportions of the funding to a small number of projects;
 - Through the ‘expressions of interest’ process, encourage interested parties to submit proposals about the design of the delivery of subsidies to providers, carriers and consumers. The models may use a single subsidy design or involve a combination of different subsidy designs such as:
 - traditional customer based subsidy model;
 - earmarked carrier subsidy with acquittal based on customer acquisition; and
 - linkages and incentives for delivery of a prescribed Government policy target (eg. achieving a roll out of competitive broadband infrastructure to all communities down to a minimum designated size and/or ensuring that a percentage of the population can receive broadband from at least two infrastructure based competitors).

2.3 Such an approach would immediately highlight areas of poor commercial interest and allow the deliberate fashioning of policies to these areas.

Objectives of the Connect Australia funding program

- 2.4 Optus believes each of the ‘Connect Australia’ funding packages should have the clearly defined objectives of:
- Delivering competitive telecommunications services for rural, regional and remote Australians with a prescribed timeframe;
 - Defining ‘competitive telecommunications’ as providing consumers with a choice between Telstra and at least one other telecommunications provider for the delivery of telecommunications services;
 - Stimulating effective and sustainable competition in rural, regional and remote Australia by consciously favouring propositions that promote infrastructure competition with the capability of providing a long term and commercially sustainable alternative to Telstra;

- Ensuring that ‘competitive neutrality’ is achieved in the allocation of funds;
- Maintaining protection against Government funding inadvertently re-enforcing Telstra’s dominance through the continued imposition of a funding cap of 60% in the Broadband Connect and Clever Networks programs.

Please note: This is an edited version of Optus’ submission to the Broadband Connect Discussion Paper. To discuss the contents of the full submission please contact General Manager Government Affairs, Dean Smith on (02) 9342 8005 or Manager Regulatory Policy, Judy Anderson on (02) 6222 3885