COMMUNICATIONS DAY

24 AUGUST 2010 What's happening today in telecom business, policy & technology ISSUE 3821

Telco industry holds its breath as Canberra negotiations grind on

Political uncertainty is gripping the telco industry, as both Labor and the Coalition knuckle down to negotiations with the three independents who could tip the knife-edge balance of the hung Parliament – and decide the future shape of Australian telecoms.

NBN Co itself has quashed media speculation that it would down tools completely on its ongoing roll-out effort pending an election outcome, but has made clear that it would nevertheless be carefully restricting its activities. "NBN Co will continue to operate, plan and use existing resources," a spokesperson told CommsDay. "We are operating in a manner that honours our existing commitments while minimising discretionary expenditure. We are also not entering into any significant new commitments."

Meanwhile, Telstra has postponed its latest mobile broadband announcement "with the understandably intense media and public focus on the election outcome," even as analysts debated whether a 6% drop in the firm's share price was partly influenced by NBN uncertainty or simply by the telco going ex-dividend.

As CommsDay went to press, the balance of seats stood at 73-72 in favour of Labor, with the Western Australian seat of Hasluck still undecided – but showing a narrow Liberal lead. Independent Andrew Wilkie ultimately failed to secure the Tasmanian seat of Denison, leaving both Gillard and Abbott vying for the favours of the three rural independent MPs (Bob Katter, Tony Windsor and Rob Oakeshott) to reach the 76 seats required for a House of Representatives majority.

It could still take days before the telecoms industry has any certainty about the future shape of the sector; AAP reported that prime minister Julia Gillard, seeking to "sensibly manage the expectations of Australians," has warned the negotiation process "will take a period of time," though she has also pledged to release periodic updates.

WOOING INDEPENDENTS: Both parties so far remain tight-lipped on the progress of negotiations and what concessions they might be willing to make to woo the independents. But something of a media consensus seems to be emerging that room to manoeuvre on broadband policy could be key, especially for the Coalition. Oakeshott and Windsor in particular have been widely quoted as backing the NBN in its current form, and Windsor has additionally advocated the structural separation of Telstra and welcomed the heads of agreement between the telco and NBN Co – a challenge for the Liberals, who have said point blank that they would not split the firm. However, shadow communications minister Tony Smith remained undaunted – albeit unspecific – regarding the coalition's broadband bargaining power.

"We regard broadband as a very important priority, which is why we put forward a comprehensive policy," said Smith. "As Tony Abbott said… the Coalition will be pragmatic in its discussions, but within the broad policy parameters we announced during the election."

Petroc Wilton and Miro Sandev

DBCDE re-hires Lyons for "urgent tasks" on USO Co

Comms veteran and key NBN architect Colin Lyons has returned from retirement to work for the Department of Broadband, Communications and the Digital Economy. However, Lyons has been engaged to work not on the NBN but on "urgent tasks" related to USO Co – the entity that will take over Telstra's

USO obligations should the NBN proceed in its current form and the tentative deal between Telstra and NBN Co be locked in.

Lyons worked at the communications department from 1981 up until his retirement from DBCDE at the end of last February, by which time he was serving as deputy secretary for the department's infrastructure group. In his response to Lyon's departure, communications minister Stephen Conroy acknowledged his "key role in developing the national broadband network."

Now, Lyons has rejoined DBCDE on a short-term contract for what the AusTender website categorises as "management advisory services," running from 3 August to 29 October and valued at A$90,000. However, a DBCDE spokesperson told CommsDay that Lyons had been engaged to perform "short-term, urgent tasks in regard to USO Co" and that these were envisaged to fall within the period of the contract.

The future of USO Co itself is likely to depend on the outcome of the current federal election. The establishment of USO Co to shoulder Telstra's USO responsibilities was first announced when news broke of the heads of agreement between NBN Co and Telstra; the telco estimated the value of this and other associated measures at some A$2 billion. Should the federal coalition secure the support of the independents it requires to form a government in the next few days, however, the Telstra deal is unlikely to survive unscathed. Meanwhile, in the preamble to its USO policy framework, DBCDE indicates that the framework itself is designed to work with in an NBN environment, unlikely to eventuate unless the Gillard government emerges victorious.

"In accordance with the caretaker convention work has continued on current policy settings," explained the DBCDE spokesperson. "Mr Lyons' appointment to undertake the USO project work was agreed on 31 May 2010, prior to the commencement of the caretaker period. "

Petroc Wilton

Ruckus to supply Smart Wi-Fi for Telstra T-Box

Ruckus Wireless has clinched a deal with Telstra to supply Smart 802.11n Wi-Fi systems to enable wireless distribution of its IPTV service over the T-Box platform in subscribers' homes.

Ruckus is providing Telstra with its MediaFlex 7000 series Smart Wi-Fi as part of the telco's Home Network Extender accessory range; it is being offered as an option for Telstra customers who need to connect the T-Box beyond the reach of an Ethernet connection or normal Wi-Fi connectivity.

The MediaFlex 7000 series, based on 802.11n 5GHz technology, is an in-home Wi-Fi system specifically designed for high-reliability and long-range transmission of IP-based video. It integrates smart antenna technology that focuses Wi-Fi signals only where they are needed while constantly steering transmissions over the highest performing signal paths.

According to Telstra, the system was selected due to its ease of use, handling of streaming video content and ability to automatically adapt to obstacles and interference that typically cause packet loss, leading to pixelation. Ruckus ANZ country manager Carl Jefferys told CommsDay that there are a number of in-home obstacles that the technology would help overcome.

"Other APs from neighbours, cordless phones, microwave ovens; HD video is much more demanding than internet access and similar technology," said Jefferys. "HD IPTV is live and there is no scope for buffering, it is easily pixelated if unchallenged, robust transmission is not achieved."

Miro Sandev

Mobile sector told to brace for lower revenues, increased competition

Australia's mobile operators are better placed for growth than many of their rivals in developed countries regionally, although the industry as a whole has been warned that an "emerging maturity" will see growth taper and lead to lower ARPUs in the next five years.

The latest five-year forecast from industry analyst Ovum forecasts that global mobile connections will hit 7.4 million in 2015, with Asia Pacific the connections growth engine. It is expected to reach 3.8 billion connections by 2015, 52 percent of the global total.

However, much of the growth is in emerging markets and developed economies will see much slower growth, with the main driver expected to be multiple device ownership.

Ovum's Melbourne-based senior analyst for consumer mobile communications, Nicole McCormick, told CommsDay that there was further scope for growth in the Australian market, while other developed countries in the region were slowing faster. Much of that growth will be through data services rather than voice.

"Ovum forecasts that voice revenues in Australia will decline for the first time this year," McCormick said. "On the other hand, we predict that mobile data revenues will increase by a CAGR of 14.1% between the forecast period 2008 and 2015 due to the proliferation of smartphones."

The increase in mobile data revenues is expected to offset the fall in voice revenues, so that overall revenues will increase throughout the forecast period until 2015. According to Ovum, total mobile revenues in Australia are expected to grow by a CAGR of 4.05% between 2008-2015, slightly higher than Singapore's forecast CAGR of 3.55%, but significantly better than the forecast CAGR for Japan and Hong Kong of less than 1%.

McCormick said that the tapering of growth, both here in Australia as well as in overseas markets, will put pressure on operators to figure out how to monetise mobile data as well as eke out new mobile data revenue opportunities.

The pressure on Australia's mobile operators could also be intensified due to Telstra's newly announced strategy of improving its customer service, something McCormick suggested its rivals would have to emulate or improve on. However, the pressure on margins is also expected to heat up.

"Telstra is about to get more aggressive on its mobile broadband tariffs," the Ovum analyst suggested. "Australia is about to plummet into a mobile price war – this will start cutting into revenues, and that is not good news for margins for all operators going forward."

Geoff Long

Comms Alliance honours NBN framework volunteers

Communications Alliance has paid tribute to the group of over 200 industry volunteers who have shaped the peak body's NBN framework in a brace of special events. Comms Alliance leaders and NBN Co CEO Mike Quigley emphasised the contribution that the participants had made to the national broadband network – even as its ultimate fate hangs in the balance of the outcome of the close-fought federal election.

Events held this week in Sydney and Melbourne honoured the industry professionals who have worked on Comms Alliance's NBN project, hailing from 72 different Australian telecoms companies. The organisation hailed some of the participants' most significant achievements including defining a cohesive architecture for end-user premises; creating a draft specification for the B2B interactions required for RSPs to deliver working NBN services to end-users; and creating a wholesale service definition frameworks for Ethernet and telephony access services.

"Industry collaboration is vital to the success of NBN Co," said Quigley. "The work done in the Communications Alliance NBN project has been instrumental in helping to develop key aspects of NBN Co's product design, technical specification and operational processes." Comms Alliance CEO John Stanton – likely cognisant of the NBN's currently uncertain future in context of the current political manoeuvring – added that the work completed to date "would underpin not only the NBN, but would also assist the rollout of any other future high speed broadband networks in Australia."

Singled out for particular praise were former Comms Alliance CEO Anne Hurley, lead consultants Gary McLaren and Dr. Paul Brooks, and the leaders of the seven working groups. These included NBN Co CTO McLaren and Juniper consulting engineer Ben Hickey as team co-leaders for the reference model; Telstra's industry engagement and strategy GM Dino Gergiou for wholesale services; Opticomm's infrastructure GM Phil Smith on early stage deployments; Alcatel-Lucent solutions architect Rob Haylock for end-user premises; Ericsson group product manager Colin Goodwin for technical; NBN Co systems architecture and technology GM Greg Tilton for operational; and Optus acting GM for internet and data products Dave Thompson for end user migration.

Petroc Wilton

Fed govt. issues network connection services tender

The Australian federal government has issued a tender for internet-based network connection services, in a whole of government procurement process.

The Australian Government Information Management Office issued the request for tender documents late last week. As reported on the Delimiter website, the department of Finance and Deregulation has invited interested parties to submit tenders in response to request for the provision of Internet Based Network Connection Services.

The department said on its website that it "is seeking a diverse panel of IBNCS providers, which could comprise of telecommunication carriage providers, systems integrators and service providers who have capabilities in the provision of internet carriage and managed services."

The RFT document says that the IBNC Services include four separately purchasable Service Types: network carriage services; virtual connection management services; IP carriage services and major internet connection services. The document listed some of the characteristics of the services in question: they utilise the IP protocol suite, data carried traverses a packet-switched public data network, the point of presence is in Australia and the telco service is not a dedicated point to point service.

The strategic objectives of the tender include cutting government telecommunications costs and improving price transparency through bulk purchasing – while maintaining flexibility for individual agencies. In addition it seeks to reduce the cost and duplication of procurement processes for both the Commonwealth and the telco industry and to foster competition and innovation within the industry.

Miro Sandev

DATA#3 CLAIMS RECORD $10.9M NPAT, A$599.2M REVENUE

Data#3, which provides managed services to NBN Co as part of its broad portfolio of ICT products and services, has claimed a record-breaking NPT of A$10.9 million for the year ended 30 June 2010, 11% over its 2009 result. The profit boost was driven by a 13% increase in total revenue to A$599.2 million, with EBITDA up 12.4% to A$16.3 million. MD John Grant said that the firm was looking to grow organically through the next year but was also keeping an eye out for possible partnering and acquisition opportunities.

STRATHFIELD GROUP, OPTUS ENTER NEW MASTER DEALER AGREEMENT

Strathfield Group has entered a new Master Dealer agreement with various Optus group companies for a five year period, with the option to renew for a further five years. Effective from 1 September, the new MDA continues an existing relationship between Strathfield and Optus.

VODAFONE NZ SWALLOWS INDEPENDENT RETAILER

New Zealand newspapers reported yesterday Vodafone NZ is close to buying the First Mobile chain of retail stores. First Mobile has 77 stores in New Zealand and is one of the largest independent Vodafone retailers. When the deal completes it will become a wholly-owned Vodafone NZ subsidiary. The business will be managed – at least during its transition – by former Vodafone Australia CEO Russell Hewitt.

NEW ZEALAND

Analysis: UFB bidders show distinct approaches

Crown Fibre Holdings has thirteen bids from companies hoping to partner the New Zealand Government as it builds its ultrafast broadband (UFB) network.

They fall into three groups: Telecom NZ, Axia Netmedia and 11 bids from members of the New Zealand Regional Fibre Group (NZRFG). Each has an entirely different approach.

For Telecom NZ, UFB is all or nothing.

The company's bid bypasses the regional structure and pitches a single national network.

Telecom NZ previously said it will separate into retail and wholesale organisations if that's what it takes to get the business. However at last week's annual results briefing Telecom NZ CEO Paul Reynolds also made it clear Telecom NZ is settling for nothing less than the entire UFB contract.

Like Telecom NZ, Axia Netmedia also offers a national network.

Yet unlike Telecom NZ, Axia CEO Art Price said he would roll out regional networks if he didn't win a national contract.

Price told CommsDay he would create a new entity and a fresh ownership structure: "The one that was missing in New Zealand". By that he means a completely stand-alone fibre-based transport company with no legacy links to previous incumbents or businesses operating in other industries.

It's likely the eleven official bids from companies within the NZRFG will become fewer bids as members consolidate. However, the bids will remain local.

While the NZRFG speaks with many voices, the group's loudest spokesman is Vector's Simon Mackenzie.

Mackenzie is an engineer at heart. At our first meeting he was keen to show me a new kind of less-visible overhead cable. He enthuses about the mechanics of network building – and blowing fibre down cables. One can imagine Mackenzie at his happiest wearing his hard hat.

Earlier this year Vector ran an advertising campaign in Auckland selling the benefits of fibre-to-the-door. Vector would roll out an Auckland-wide network faster and cheaper than anyone else.

Telecom NZ's proposal is commercially secret, yet enough information is public to tell us the company's negotiating stance is aggressive. Let's call it the Dirty Harry approach after the scene where Clint Eastwood asks "You've got to ask yourself one question: Do I feel lucky? Well, do ya, punk?"

Nobody at Telecom NZ has officially articulated the company's likely response if its bid fails. However, the widely understood game plan involve using the company's fibre-to-the-node network along with its copper monopoly to undermine the UFB.

Shorn of a need to play nice in order to receive government subsidy Telecom NZ is likely to cherry-pick the most lucrative prospects leaving the UFB winners to pick up less valuable customers. If Telecom NZ goes too far, the government will step in and strangle the company with more regulation.

Axia Netmedia carries no baggage. This is an advantage and a disadvantage. Its resources look puny compared with other bidders, but its experience and narrow focus trump Telecom NZ and NZRFG on deployment.

Art Price doesn't have to make threats. If Crown Fibre Holdings rejects his bid he can jump on a plane and find greener pastures elsewhere.

His pitch is as a fixer. He said if he wins he will repackage the entire value chain and install experts at each stage in that chain. This could include, for instance, hiring Vector to build, but not control, the Auckland network.

In contrast Telecom NZ arrived at UFB from a vertically integrated background – it has pulled value from controlling monopoly assets adding services on top. Vector is the builder with experience of running other utility networks. Price said his business model finds value at the service level – to him owning or building the asset is not as important as managing and controlling it.

Thanks to the different approaches and temperaments of the three main UFB bidding blocks, Crown Fibre Holdings has a real choice of distinct alternatives. Whoever succeeds doesn't just get to reap the financial rewards from New Zealand's biggest infrastructure investment; they also get to define the nature and character of the built network.

Bill Bennett

Analysis by economist John de Ridder

How to make the NBN viable

Canberra, we have a problem. We are building a fixed broadband network for speed which residential customers are unwilling to pay for. This is a problem for the viability of the NBN and it also undermines the broader purpose of transforming our economy. But, there is a solution.

At the ACCC Regulatory Conference in July, Dr Karl-Heinz Neumann from the WIK Institute concluded from his research that "The supply-driven character of the roll-out also defines the greatest economic risk of a fibre project which is take-up or penetration. Any viable business plan of fibre requires a fibre penetration rate between 50% and 100% of the total potential customer base of all access lines".

In Tasmania, only half the homes in the first three NBN towns took a ONT installation and fewer took up activated broadband services. Michael Malone of iiNet says that "A total of 70 customers have been signed up in Tasmania under the three brands – so that's not 70 each but a total of 70 between iiNet, Internode and Primus…Demand from our point of view is zero."

The KPMG/McKinsey Implementation Study projects that 54-63% of premises in fibre areas will be activated by 2020 and 75-90% by 2035. However, it also notes that in two markets where the roll-out of fibre is complete - Japan and S. Korea with 93% and 92% of homes passed - only 32% and 39% of homes passed are activated. Of course, having no competition from other fixed broadband networks will help our NBN – but only on the supply side. On the demand side, there is a clear unwillingness to pay for speed. At December 2009, only 38.3% of broadband households subscribed to speeds in excess of 8Mbps even ADSL2+ speeds of up to 24Mbps were available to around 70% of customers

Unless consumers take-up higher speeds there does not seem much point spending billions of dollars to make available capacity they will not use with the conventional approach to pricing. Worse, the transformation of economic processes promised by the NBN is threatened. "The services of today and the next decade are telemedicine, tele collaboration, telecommuting, blended education, etc. All things that enable rich interactive experiences without having to be in each other's presence. This currently needs bandwidths of 100MB/sec or more" said Senator Stephen Conroy in Comms Day on 17 August. But, to get the scale to make these worthwhile and to create new services and industries, we need not only high activation rates but also high utilisation of the speeds made possible by the NBN.

The conventional wisdom is that "the typical consumer plans that will likely be available on the NBN in its first decade will more closely resemble ADSL2+ and HFC than anything else" said Grahame Lynch, Commsday on 11 August. That would be a pity: if customers do not use the speeds available today why would they use any more in an expensive network built for speed? We know typical plans will not drive the activation and utilisation objectives. Telstra's 100Mbps network in Melbourne is available in nearly 1 million premises but just 0.2% of those have signed-up, write Dominic White in the AFR, 10 March.

In the USA, telcos that have been used to providing speed based plans with unlimited downloads are now moving to down load caps as we have here. Google and others have been resisting this as an assault on net neutrality; with the recent exception of mobile broadband on the basis that its capacity constraints are greater. At least, that is what the Google-Verizon accord argues.

LEADERSHIP: Australia now has the opportunity to provide world leadership where it matters. Not with a high coverage NBN that may display low activation and poor utilisation rates, but with broadband pricing that encourages both activation and utilisation while also meeting affordability objectives.

Australia has the opportunity to lead the world. It is not because of the scale of the NBN but because of the (still) possible use of innovative pricing to increase activation and utilisation rates. Pricing is the game-changer that will realise the transformative power of the NBN investment.

As Bevan Slattery, the founder of Pipe Networks, observed "NBN Co isn't bringing broadband to Australia. It's bringing faster broadband" On current plans, it will not deliver an "entirely new experience" because the NBN is built for speed but currently priced to withhold it.

Although NBN Co. has not yet released its pricing, its current fibre consultation paper clearly foreshadows speed-based pricing with data throughput options starting at 12/1Mbps. Since residences are likely to require only one or no fibre activation, growth in revenue must come from either "a change in demand for new or higher priced services; or a price increase on basic services within the ongoing affordability requirement" as says p254 of the Implementation Study.

Suppose instead that NBN Co. has a two part tariff of, say, $20 per month plus $0.50/GB with unlimited speeds ie no PIR constraints. The suggested two part tariff is inferred from a best-fit line through ADSL2+ retail broadband plans at September 2009 showing an average price of $54 per month plus $0.49GB. A year earlier, the same line was $50 per month plus $0.96/GB and the implied data price is probably mush less now.

This was the approach used in TransACT's NBN Mark 1 business model and put in several public papers including to the Senate Select Committee in March.

This is a better approach because,

- It leads to a more attractive entry-level product beginning from a wholesale cost of $20 which increases activation rates.
- Average usage is around 6GB now so at, say, 10GB the NBN Co access cost is only $25 compared with average retail yields over $50 per month.
- There is built-in revenue growth tied to data growth. Under some revenue-cap arrangement, the data price would fall continuously and quickly. If data grows 60% pa, the wholesale data price can fall from 50 cents/GB to 5 cents/GB within 5 years to hold revenue constant; so the price cuts lead to more traffic and more price cuts in a virtuous circle.
- ISPs can still continue to price around monthly data caps, as they do now. Customers are more likely to migrate to higher caps with unlimited speeds.
- With high-speed broadband access as the default option, this will encourage investment in backhaul and improved consumer PCs and other devices. Unlimited speed increases innovation and investment.
- The revenue model is self-funding: as data grows so does the capacity to augment the network to meet demand (ie prices fall a little less to fund expansion)
- NBN Co has every incentive to encourage use of the network. It has no legacy retail revenues to defend.

NBN Co may object that customers will experience contention issues although it will allow this on its satellite service. That depends on how ISPs configure the capacity they buy from NBN Co; with the exception of homes that buy services from multiple suppliers. In the past, customers have been willing to accept such trade-offs: even corporate customers who chose IP over both the ATM Constant Bit Rate Service and the cheaper Variable Bit Rate Service.

ISPs may object that this runs counter to the recent move to provide monthly terabyte quotas. As Grahame Lynch has argued, the new "terabyte plans would appear to be more about positioning than anything else". Heavy users will not be happy with a two-part tariff but they do not pay for extra speed now and they impose costs which are reflected in a two-part tariff.

If the NBN prices access on speed, nothing much will change. However, the proposed access pricing model allows not only full-speed to be turned on for all users immediately but also enables affordable entry pricing without pre-empting the design of retail broadband plans. This approach is a game-changer which will increase both activation and utilisation rates leading to real economic and social transformation.

John de Ridder

COMMUNICATIONS DAY
Including The Line of NZ

Chief Editor: Petroc Wilton
petroc@commsdaymail.com
02 9261 5436
Assistant Editor: Miro Sandev
miro@commsdaymail.com
Melbourne correspondent: Geoff Long
Geoff@commsdaymail.com
Editor, NZ: Bill Bennett
bill@commsdaymail.com
Editor at large: Tony Chan
tony@commsdaymail.com
Founder: Grahame Lynch
Grahamelynch@commsdaymail.com

PUBLISHED BY DECISIVE PUBLISHING
Mail; PO Box A191 Sydney South NSW 1235 AUSTRALIA.
Fax: +612 9261 5434
Internet: www.commsday.com

For subscription details contact Laraine Davis at
laraine@commsday.com.au or phone at +612 9264 1781