

Joint Parliamentary Committee on the National Broadband Network

Answers to Questions on Notice by OPENetworks, Service Elements, Comverge and Pivit who are Members of the Greenfield Fibre Operators of Australia (GFOA)

Presented by:

Michael Sparksman B.A.; LL.B. of OPENetworks

Accompanied by:

Steven Appleby of Service Elements

Ben Seaman of Service Elements

Ross Yelland of Comverge

Peter Thompson of Pivit

Answer by Mr Sparksman wherein it was indicated that the Complaint to Australian Government Competitive Neutrality Complaints Office (AGCNCO) – Productivity Commission would be provided to the Joint Paliamentary Committee (Hansard Page 56)

Answer Supplement - In response to an invitation by the Chairman, Mr Sparksman on behalf of GFOA said he would provide and now attached are a copies of the Complaints by GFOA companies to the Australian Government Competitive Neutrality Complaints Office (AGCNCO) – Productivity Commission by:

- OPENetworks
- Comverge
- Service Elements (which complaint was lodged after the date of the Hearing of Joint Committee, but which has been provided for completeness).

Senator Cameron – I am looking to see what businesses your organisation comprises. I do not need a detailed list now, but do you have a list of members? (Hansard Page 57)

Answer – The members of GFOA are:

- OPENetworks
- Comverge
- Service Elements
- Broadcast Engineering Services (Australia) Pty Ltd
- TransACT
- Pivit

Senator Cameron “How many employees does you organisation have?”

Can you take it on notice and provide the committee with details of your various employees. If you could give us details of the various classifications of employees that you employ and their qualifications, that would be handy as well. I was wondering where you have been for the last 10 to 12 years in terms of providing this broadband network that you think you can provide now....take that on notice as well. (Hansard Page 57)

Answer - GFOA is an unincorporated association of member corporations that does not, as an association, employ any staff. Work on matters of relevance to the association is done on a voluntary basis by the staff of the member corporations.

If the questions are directed at finding out the identity or number of various employees, classification of employees, qualifications of employees of any of the member companies of GFOA then that information is commercially sensitive market information and is not available.

In relation to the question about the activities of member companies of GFOA over the past 10 to 12 years, the following information is submitted.

The Greenfield Fibre Operators of Australia (**GFOA**) is an alliance of the leading 6 fibre-to-the-premises (FTTP) operators who are all licenced telecommunications carriers, namely:

- **OPENetworks** <http://www.opennetworks.com.au/>
- **Comverge Networks** <http://comverge.com.au/>
- **Service Elements** <http://www.selements.com.au/>
- **Pivit** <http://www.pivit.com.au/>
- **TRANSACT** <http://www.opennetworks.com.au/>
- **Broadcast Engineering Services (Australia) Pty Ltd** <http://comverge.com.au/>

GFOA member companies pioneered advanced broadband networks long before the NBN or NBN Co.

Even before 2000, GFOA member companies were designing, building and operating advanced broadband networks in Greenfields and some have even designed optical fibre equipment used in advanced networks around the world.

GFOA member companies connect or pass over 400,000 homes and businesses and potentially there are another 350,000 premises to connect in Greenfield estates already serviced by their networks or under deployment contracts.

GFOA member companies deliver high-speed Internet, Data, Voice, and Free to Air TV, Pay TV and many other digital services (including CCTV, security, power, water, traffic and other utility management services).

For almost a decade, GFOA member companies have more than demonstrated their capabilities and competence in designing, building and operating FTTP networks in Australia to the world's best standards. GFOA members continually meet and exceed the high quality of technical and commercial standards required and expected by developers, communities, retail service providers and end-users.

GFOA member companies have created thousands of jobs while delivering on the Federal Government's desire for innovation and competition in Australian telecommunications, years ahead of the NBN, but without taxpayer subsidy.

GFOA member companies and the thousands of Australian workers employed or contracted by them, have been doing their part to assist the Federal Government to deliver on its NBN vision of

providing FTTP to 90 per cent of Australian homes and businesses, since the Government's announcement on 7 April 2009.

GFOA member companies have actively participated with Government in NBN forums (including the DBCDE Greenfields Stakeholder Reference Group), are members of the Communications Alliance (CA) Early Stage Deployment Working Group and have responded to various requests for submissions relating to the National Broadband Network (NBN).

Since the early days of NBN, GFOA member companies have participated as unpaid advisors to Government task forces, been voluntary submitters to Government enquiries on the NBN, and more recently, all GFOA member companies were encouraged by the Minister and ultimately invited to provide proposals to be the expert contractors to NBN Co to build FTTP networks in Greenfields over the next few years when NBN Co says it will not have capacity to do so. The GFOA member companies have been the core of the vibrant competitive FTTP network market in Greenfield developments for several years. It is the survival of that competitive Greenfield market that is now threatened by NBN Co offering to provide networks without charge to the developers of Greenfield developments, through higher access charges that must be passed on to residents and end users.

Senator Cameron – “I would like to know if there are business plans in place from each of your member companies to be able to provide broadband services across the country” (Hansard Page 58)

Answer - Some of the GFOA member companies have developed business plans in place to provide broadband services across the country. However, the extent of the country to be covered by such plans, and the rollout of those networks and other business plan information sought by the question is commercially sensitive market information that is not available.

Mr Turnbull – “Mr Sparksman, I am trying to get a clear idea of what your argument is. You would say that the government should make available to you a sum equal to the NBN's cost per premises of connecting fibre to a greenfield site as long as the fibre network you deploy meets the technical specifications which enable it to be connected to the NBN: is that right” (Hansard Page 61)

Answer - That is essentially correct.

In order to ensure that NBN Co is the “provider of last resort” that the Communications Minister Stephen Conroy has previously announced and so that NBN Co does not eliminate or adversely affect existing competition in the Greenfield network market, as NBN Co appears to be threatening, developers must be able to elect to choose either a private provider/carrier or NBN Co to provide FTTP networks without providing NBN Co with an unfair advantage. That is what is required by the well-established competition reforms and the Competitive Neutrality policy of the Australian Government.

Indeed before May 2011, the both NBN Co and Communications Minister Stephen Conroy had publicly stated that the NBN Co would rely on a panel of approved providers to carry out its

responsibilities as “provider of last resort” of connectivity in Greenfields developments. After inviting the GFOA member companies and other carriers to provide proposals to be on that panel of providers to build operate and transfer FTTP networks for NBN Co, on 19 May 2011, NBN Co announced the appointment of Fujitsu as the only provider for \$100m worth of work to build and operate networks in Greenfields for NBN Co. The decision and full funding for network deployments by NBN Co, with developers only paying for trenching, pits and pipes, effectively will eliminate the competition of GFOA member companies and other existing commercial providers/carriers in the Greenfield network market.

The Government should require NBN Co or the NBN to provide developers with sufficient funds to choose from competitive providers or Fujitsu acting for NBN Co in the connection of FTTP networks that must meet the standards and specification that are set by Industry Codes (not simply NBN Co) and accepted by the ACMA and relevant Minister.

With respect to any FTTP networks funded under these arrangements by commercial providers/carriers other than NBN Co:

- The active equipment including all network management software, the Optical Network Terminal Units (ONUs, NTUs or ONTs) and any uninterrupted power supply (UPS) units should be owned, maintained, replaced and upgraded as required by the network provider/carrier selected by the developer;
- The Pits, Pipes and Optical Fibre cables should be owned, maintained, replaced and upgraded by USO Co or NBN Co with a permanent irrevocable licence for access and use without charge in favour of the network provider/carrier selected by the developer and any local authority;
- Network access fees charged by the network provider/carrier selected by the developer may be charged at market rates under the existing price surveillance regulations;
- The FTTP networks must be operated by the network provider/ carrier selected by the developer on true open access terms and conditions; and
- The terms of such access should be equivalent as between the various classes of access seekers.

In relation to the lack of affordable and available back haul which is an enormous problem that has plagued the FTTP network marketplace in Australia and which continues despite the NBN, GFOA would encourage the Government:

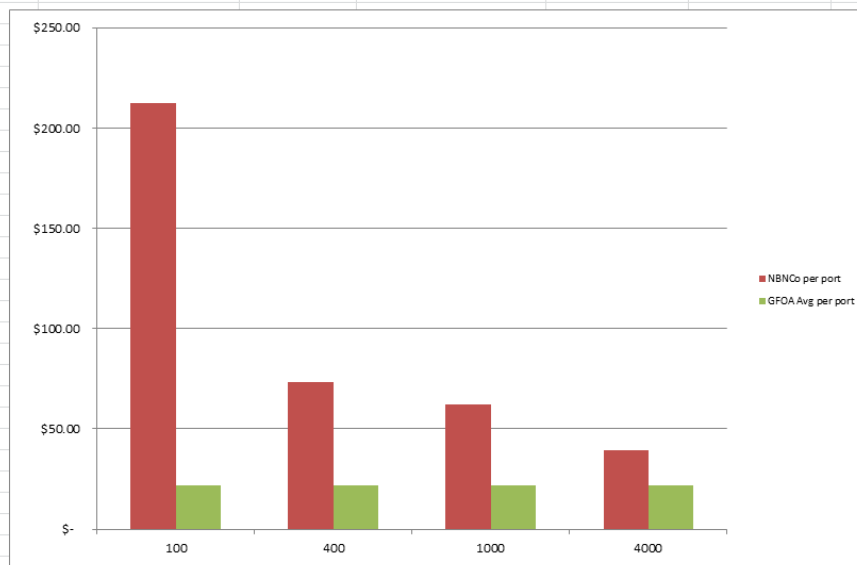
- to require NBN Co to unbundle their back haul between their Points of Interconnection (POIs) and their Fibre Access Nodes (FANs) and permit access to any access seeking carrier on an open access basis, on terms and prices of equivalence, and with prices monitored by the ACCC; and
- to release more back haul black spot contracts to fix the major impediment to providing advanced broadband in non-metro areas of Australia.

Senator Mac Donald – “Regarding the penultimate paragraph on the first page – ‘whilst wholesale prices are far less than NBN Co’ – I want to know how you know that and what they are likely to be in dollar terms.” (Hansard Page 66).

Answer – The following graphs demonstrate the average wholesale port fee comparison between NBN Co and GFOA members with open access product pricing. The notes clarify aspects in the tables. The NBN Co prices are based on their published wholesale fees and pricings outlined in the ACCC “Interim Access Determination No.7 2011”.

NBN Co vs GFOA Wholesale access Metro Comparison				
	NBNco		GFOA Averaged	
Construct of FtTH infrastructure				
AVC	\$	27	\$	15
100 CVC (1-400 customers)	\$	2,000	\$	-
150 CVC (401-600 customers)	\$	3,000		
200 CVC (601-800 customers)	\$	4,000		
250 CVC (801-1000 customers)	\$	5,000		
300 CVC (1001-1200 customers)	\$	6,000		
400 CVC (1201-1600 customers)	\$	8,000		
500 CVC (1601-2000 customers)	\$	10,000		
600 CVC (2001-2400 customers)	\$	12,000		
700 CVC (2401-2800 customers)	\$	14,000		
800 CVC (2801-3200 customers)	\$	16,000		
900 CVC (3201-3600 customers)	\$	18,000		
1000 CVC (3601-4000 customers)	\$	20,000		
Network - Network interface	\$	1,000		
DTCS (100Mb)	\$	4,202		
Tail (100Mb)	\$	6,333	\$	-
DTCS (1000Mb)	\$	12,500		
Tail (1000Mb)	\$	12,500		
DTCS Connection Fee	\$	5,000	\$	-
Wholesale Port Fee (per port)			\$	7

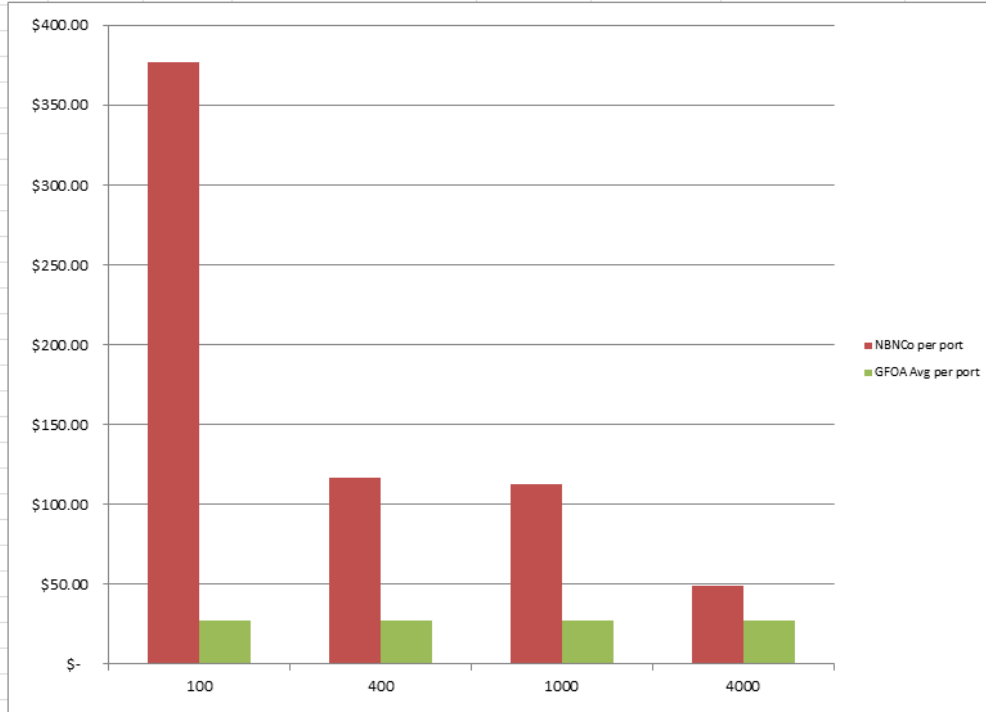
Customer Numbers	NBNCo	GFOA Avg	NBNCo per port	GFOA Avg per port
100	\$ 21,235	\$ 2,200	\$ 212.35	\$ 22.00
400	\$ 29,335	\$ 8,800	\$ 73.34	\$ 22.00
1000	\$ 62,000	\$ 22,000	\$ 62.00	\$ 22.00
4000	\$ 158,000	\$ 88,000	\$ 39.50	\$ 22.00



Regional Example (200-300 km outside Metro)

Category	Mbps	Description	NBNco	GFOA Averaged
Port Fee		AVC	\$ 27	\$ 15
CVC	100	CVC (1-400 customers)	\$ 2,000	\$ -
CVC	150	CVC (401-600 customers)	\$ 3,000	
CVC	200	CVC (6401-800 customers)	\$ 4,000	
CVC	250	CVC (801-1000 customers)	\$ 5,000	
CVC	300	CVC (1001-1200 customers)	\$ 6,000	
CVC	400	CVC (1201-1600 customers)	\$ 8,000	
CVC	500	CVC (1601-2000 customers)	\$ 10,000	
CVC	600	CVC (2001-2400 customers)	\$ 12,000	
CVC	700	CVC (2401-2800 customers)	\$ 14,000	
CVC	800	CVC (2801-3200 customers)	\$ 16,000	
CVC	900	CVC (3201-3600 customers)	\$ 18,000	
CVC	1000	CVC (3601-4000 customers)	\$ 20,000	
Network Interface		Network - Network interface	\$ 1,000	
Backhaul		DTCS (100Mb)	\$ 20,663	
Backhaul		Tail (100Mb)	\$ 6,333	\$ -
Backhaul		DTCS (1000Mb)	\$ 62,500	
Backhaul		Tail (1000Mb)	\$ 12,500	
Backhaul		DTCS Connection Fee	\$ 5,000	\$ -
Backhaul		Wholesale backhaul fee (per port)		\$ 12

Customer Numbers	NBNCo	GFOA Avg	NBNCo per port	GFOA Avg per port
100	\$ 37,696	\$ 2,700	\$ 376.96	\$ 27.00
400	\$ 46,796	\$ 10,800	\$ 116.99	\$ 27.00
1000	\$ 113,000	\$ 27,000	\$ 113.00	\$ 27.00
4000	\$ 196,500	\$ 108,000	\$ 49.13	\$ 27.00



Notes

- i) Access Virtual Circuit (AVC) pricing taken from NBN Co wholesale access service "product & pricing overview for access seekers December 2010"
- ii) Connectivity Virtual Circuit (CVC) pricing taken from NBN Co wholesale access service "product & pricing overview for access seekers December 2010"
- iii) Network - Network Interface (NNI) pricing taken from NBN Co wholesale access service "product & pricing overview for access seekers December 2010"
- iv) We have assumed NBN Co suggested contention of 250:1
- v) Backhaul pricing taken from Australian Competition & Consumer Commission "Interim Access Determination No. 7 of 2011 (DTCS)"
- vi) The "Interim Access Determination" pricing schedule did not have pricing for 1000Mbps, so we have assume an increased cost of approximately 3x for a 1000Mbps over a 100Mbps.
- vii) Example is based on an ISP accessing customers in 1 single fibre serving area. Obviously if the customers were spread across multiple fibre serving areas the costs under NBN Co would be greatly increased.

Senator Mac Donald – “Secondly, Mr Appleby mentioned that \$35 is what people currently pay and that it will go up to \$70. Can you tell me what the \$35 represents and how you know it is going to be \$70.” (Hansard Page 66).

Answer – Mr Appleby was referring to the price of broadband for internet services charged by retail service providers (RSPs) to end users in Australia increasing from about \$35 per month for basic internet services to about \$70 per month for the same service. This opinion was based on the average monthly wholesale access price charged by most GFOA members to RSPs is (as shown in the graphs above) for Metro and Regional Areas being between \$22 per month and \$27 per month respectively. Those access charges enable RSPs to make monthly margins of between \$17 and \$12 for basic internet services. If the same RSP monthly margin is then applied under the NBN Co pricing model and one assumes a reasonably successful RPS has (say) 1000 connections within the same single fibre service area, then with the wholesale access of between \$62 and \$113, the monthly price charged by RSPs to end users would be well over \$70 per month. Indeed Regional Areas will become too expensive for the vast majority of RSPs and only the largest RSPs, such as Telstra, Optus, TPG, iiNet and Internode, might be able to provide products for Regional Areas..

Senator Mac Donald – “On the next page, under the heading ‘Fibre Deployment Bill’ you say: ‘NBN [Co] is an obvious choice for developers because the NBN Co can fund and build network costs that are otherwise paid by the developers to private providers and the funding is recovered from NBN’. But the ultimate buyer will eventually pay. If you do it and charge the developer, they pass that on to the ultimate buyer of the property; whereas, if they do it NBNs way, it will go into all the operating costs and eventually come back to their dealers anyhow.”

Mr Appleby: “What if we provide you with some costing models?”

Senator MacDonald: “Could you, and just explain that?” (Hansard Page 66)

Answer – By reference to the above graphs showing the average wholesale port fee comparison between NBN Co and GFOA members with open access product pricing, NBN Co prices for access is significantly higher for both Metro and Regional Areas. That difference allows NBN Co to recover the cost of network deployment and construction without charging developers and effectively shifts the burden onto the end user residents and businesses after they build on the land sold to them by the developer. Instead of realising and paying off the cost of the network infrastructure at the time of deployment when the developer owns the land in each Greenfield estate, NBN Co holds the cost so that, unlike other infrastructure, the developer does not invest in the network beyond the cost of pits, pipes and trenching.

This is the main incentive the developer gets with NBN Co and makes NBN Co the “provider of first choice” (not provider of last choice) over other commercial operators (such as GFOA members). It could be easily remedied by giving developers an allowance to cover the cost of building an FTTP network to the standards and specifications required by law and allow the developer the choice of network carrier/provider on whom to spend the allowance. That maintains competitive neutrality,

preserves completion in the Greenfields and does not burden residents and future generations of residents through inflated operational costs.