

Australia On Line

11 August 2011

Supplementary Submission: Joint Senate Select Committee of Inquiry into the NBN.

Australia On Line's view is that the market place for private back haul can be sustained without requiring more than 7 NBN POIs for national connection to the NBN.

Australia On Line has previously described how 121 NBN POIs will result in mountainous barriers to entry to the national retail market place. These barriers will materially lower competition and result in all but the largest providers being forced from the market place and in particular rural and regional markets. These barriers will result in materially lower levels of competition and hence less diversity of market place offerings and less downward pressure on prices.

Consequently, Australia On Line urges the committee to recommend to Government that the number of NBN POIs be reduced to a practical minimum such as 7.

In this submission I cover two main issues:-

1. 121 NBN POIs are not required to maintain a private backhaul market place.
2. NBN Co's announcement of rebates to help small service providers won't materially lower the prohibitive costs of servicing our customers via the NBN.

121 NBN POIs are not required to maintain a private backhaul market place.

The argument against fewer POI numbers is that 121 POI are necessary to maintain a private market in backhaul. Australia On Line's view is that a small number of POI, say seven, is entirely compatible with a private market for backhaul as long as contestable private backhaul is available within the NBN.

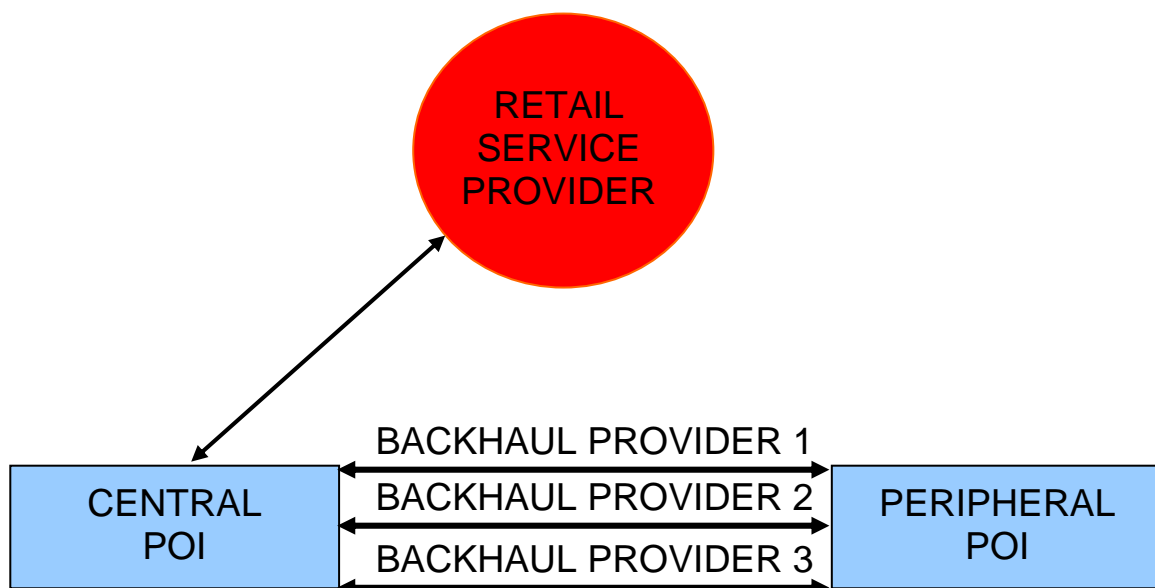


Figure 1: Contestable backhaul connecting Central POI to Peripheral POI

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Australia On Line Pty Ltd proposes the NBN provide 7 central POI and 114 peripheral POI in the wider NBN network.

The NBN would enable multiple private back haul providers to offer contestable back haul between the 7 central POI and the 114 peripheral POI in the wider NBN network.

Retail Service Providers such as Australia On Line would connect to the NBN's 7 central POI and choose a back haul provider to carry their traffic between the central and peripheral POI. In principle this arrangement is very similar to telephone customers pre-selecting their long distance phone call provider.

The chosen back haul provider would contract with and bill directly the Retail Service Provider.

In this arrangement there would be lower switching costs to change between back haul providers. Switching between backhaul providers would be as simple as the NBN rerouting the RSP's data traffic. This contrasts with the switching costs that otherwise result from the relocation of equipment, pulling of cable and truck rolls that would be required to switch back haul providers under the auspices of 121 POI.

Further, Australia On Line proposes that no Retail Service Provider that is connected to the NBN be permitted to provide back haul services connected to the NBN, not even to themselves.

This is to ensure that all back haul providers within the NBN are willing to provide back haul on an equitable basis to all, rather than providing disadvantageous access to their retail competitors.

Combining 7 central POI with 114 peripheral POI would ensure that back haul assets are not stranded by the NBN

Separating back haul from retail ensures vertically integrated telcos don't disadvantage non-vertically integrated RSPs. This avoids vertically integrated telcos leveraging their smaller investment in back haul to corner the benefits deriving from a \$36 billion public investment.

NBN Co's announcement of rebates to help small service providers doesn't materially lower the prohibitive costs of servicing our customers via the NBN.

NBN Co's recent announcement that it will rebate the wholesale costs of connecting to its each NBN Point of Interconnect (POI) does NOT materially lower the barriers to entry to the National retail broadband market place. Consequently, NBN Co's rebates will not prevent us and others from being forced out of rural and regional market places and the consequent reduced competition.

It will cost Australia On Line **15 fold** more to service its existing national customer base via the NBN than is currently the case. This increase represents a dramatic imposition of mountainous barriers to entry to the national retail broadband marketplace.

This **15 fold** increase in costs is a direct result of increasing **17 fold** the number of POI that are required to connect nationally via the NBN compared to that required to connect nationally to the ADSL network.

It currently requires 7 POI to connect nationally to the ADSL network and the NBN requires 121 POI to connect nationally to the NBN.

In the event that NBN Co rebates all our NBN connection charges, it will still cost Australia On Line **14 fold more** to connect nationally via the NBN than is currently the case via the ADSL network. See Table 2.

The cost to connect to the NBN with NBN rebates would be \$647,350 per month for National connection which is still **14 fold more** than our current cost of \$45,773/month for national connection to the ADSL network.

Australia On Line Pty Ltd is a small ISP, operating since 1994.

Australia On Line Pty Ltd urges Government to ignore the ACCC's recommendation to increase the number of POI from 14 to 121.

Michael Bethune, CEO, Australia On Line Pty Ltd

Attachment A.

Table 1: Monthly POI cost (no capital costs)

1. Cost to keep equipment in 121 POIs,
2. Cost to connect each 121 location to NBN
3. Cost to Connect each 121 location back to capital city Point of Presence (POP)
4. Cost to supply Internet capacity to 121 POIs.

Datacenter (POI location) Extended – GST ex.

Space rental **1 x 48 RU** \$1000/month

Power **Redundant 6Amp** \$350/month

Cross connects **2 x \$200** \$400/month

NBN Co Conn. Virtual Circuit **30 x \$20/Mbps** \$600/month

Internet Uplink (transit) **30 x \$70/Mbps** \$2100/month

Backhaul. **30 x \$50/Mbps** \$1500/month

Sub Total

\$5950/month

National Total (121 POI)

121 x \$5950/month \$719,950/month

Table 2: Monthly POI cost with Full NBN Co rebate (no capital costs)

1. Cost to keep equipment in 121 POIs,
2. Cost to connect each 121 location to NBN fully rebated.
3. Cost to Connect each 121 location back to capital city Point of Presence (POP)
4. Cost to supply Internet capacity to 121 POIs.

Datacenter (POI location) Extended – GST ex.

Space rental **1 x 48 RU** \$1000/month

Power **Redundant 6Amp** \$350/month

Cross connects **2 x \$200** \$400/month

NBN Co Conn. Virtual Circuit **30 x \$00/Mbps** \$0/month

Internet Uplink (transit) **30 x \$70/Mbps** \$2100/month

Backhaul. **30 x \$50/Mbps** \$1500/month

Sub Total

\$5350/month

National Total (121 POI)

121 x \$5350/month \$647,350/month