

Australia On Line

3 May 2011

Joint Senate Select Committee of Inquiry into the NBN.

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.

The ACCC overrode the NBN's proposal for 14 sites to which an ISP must connect (POI) to offer nationwide NBN service, increasing it to 121. This raises barriers to entry to the national broadband marketplace and so materially diminishes retail competition. It will disadvantage non-metro users by contradicting the NBN goal of a Uniform National Wholesale Price and hence non-metro NBN subscribers will face higher prices. The ACCC decision means that ISPs must use private long distance transmission (backhaul) which is likely to perpetuate data quotas for non-metro users.

The ACCC increased and spread NBN POIs to prevent the NBN from bundling backhaul transparently with its service. This is to maintain demand for private backhaul assets to keep alive currently anemic backhaul infrastructure competition. Regrettably, this revives the relationship between distance from the City and the cost of servicing subscribers and so prevents a uniform wholesale cost for servicing NBN subscribers. Here the ACCC renders uniform wholesale pricing unachievable and so contradicts the Government goal and promise of non-metro price equity with the City.

There is a minimum monthly and capital cost to connect to a POI (even with no subscribers). An increase by a factor of 8 in the number of POIs will dramatically increase an ISP's minimum cost of nationwide connection to the NBN. In this eventuality Australia On Line's monthly network costs will escalate from a current \$45,773/month to \$720,000/month and capital costs from \$70,000 to \$1,210,000.

Our wholesale costs for a 25Mb/s subscriber will be \$99, more than double that of our large competitors, a disparity entirely the result of the increase in POI numbers.

Simon Hackett, Internode, expects the ACCC's POI increase to leave just 5 large ISPs standing, I agree. We will be forced out of non-metro subscriber services and latter be driven from the industry. The result for non-metro residents, \$32 billion latter, is fewer offerings, less competition, higher prices and fewer choices – back to the future.

The ACCC has recognized increased wholesale costs due to private backhaul and discussed remedies, but it did not recognize minimum per POI costs, which multiply dramatically with a POI increase and which will devastate all but the largest ISPs.

Wholesale aggregators cannot bridge this gap. They are an intermediary between ISP and NBN, an additional cost layer that does nothing to reduce non-metro subscriber costs and so cannot stop the abandonment of non-metro markets by ISPs like mine.

The danger is the tail wagging the dog, where focusing on the backhaul market will prevent the NBN, this \$32 billion public investment, from addressing its core goal of ensuring price equity and equity of access to fast broadband for all Australians.

Michael Bethune, CEO, Australia On Line Pty Ltd