

## **Economuse, 29 June 2007**

### **Broadband Connect and OPEL – poor choices?**

#### **Broadband Connect funding has gone to Optus and Elders (OPEL) but is this the wrong consortium for the chosen technology?**

There is a strong consensus that providing broadband services in non-metro areas requires a mix of technologies And that wireless technology (mobile, WiMax or satellite) should be considered only if wireline (ie ADSL or ADSL2+) is not viable.

#### **Not mobile?**

I do not know if 3G HSDPA is superior to WiMax, but I think that the natural choice for OPEL is the former. In fact, Optus said it would increase its planned 3G HSDPA coverage from 96 to 98 percent of the population if it got Broadband Connect funding [1]. But, there is no mention of this in the award of the Broadband Connect contract.

One school of thought is that the Minister did not want to see public money spent helping Optus match the coverage of Telstra's next G (3G HSDPA) network. After all, the government has boasted that no public money is required for a metro-only FTTN network. So, it cannot be seen to put public money into replicating an existing broadband wireless network.

Another remote possibility is that Optus changed its mind. If it drew on public funds it would then have to make its network available for roaming by any carrier; just as other publicly funded programmes to extend mobile coverage have done. Then, Telstra could gain access and have truly "unbeatable network coverage".

#### **If Wi-Max, why OPEL?**

If not mobile, Wi-Max looks attractive politically – it reaches the parts that wireline networks cannot reach, it provides platform competition and it is not Telstra!

The obvious consortium to deliver Wi-Max was the *AUSalliance* (AUSTAR with Unwired and SOUL). It has the best spectrum for the job. It is committed to Mobile Wi-Max (version "e") and, I think, Austar and SOUL have street credibility in regional areas.

#### **Fit for FTTN?**

There are over 2,000 rural exchanges each with less than 2,500 lines. Telstra's Broadband Connect proposal would have involved work at 1,560 exchange sites and increased fixed broadband coverage from 91 to 95 percent [2]. The OPEL proposal including Optus own existing plans involves only 426 exchanges so population coverage will be less.

Apart from providing DSLAMs and backhaul for hundreds of small exchanges, OPEL will also have to pay the higher prices that flow from de-averaged ULL pricing. There are over 700,000 customers in Band 4 most of whom could have ADSL but the ACCC has

not set a ULL price which Telstra claims could be as much as \$144 per month [3]. As OPEL is wholesale-only and expected to be self-funding, it will have to pass-on the cost of ULL plus its other costs to Optus, Elders and other wholesale customers who will then, according to the minister, offer retail broadband prices “from \$35 to \$65 per month, depending upon speed selected”. I do not think so – who would deliberately make losses?

Paul Budde suggests Telstra might pre-empt Optus with ADSL2+ in regional areas “with prices under \$35”. First, ADSL2+ is a dodgy proposition in regional areas with customers far from their exchanges. Telstra talks only of ADSL (8Mbps). Second, even if OPEL managed to offer ADSL2+ in regional areas, Telstra would not price below its current metro offers. The cheapest ADSL2+ service offered by Telstra is \$59.95 per month. Note also that Telstra charges around \$80 per month (currently half this on a special promotion) for its Next G network.

### **Joker in the pack?**

Finally, on the metro-only FTTN network, who started the silly rumour that Deutsche Telekom might be interested? Although nearly half of its revenue is from overseas, this is nearly all in mobiles. All its fixed lines are in Europe. How could it contemplate building a wholesale broadband network here when it has persuaded the German Government to give it an access holiday to build and retail an FTTN network on its own turf?[4]

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[1] Optus press release of 30 March 2007

[2] Reported by Andrew Colley in Australian IT, 15 January 2007

[3] Telstra letter to ACCC of 3 November 2005, copied to the ASX

[4] Further developments on the EU reaction are expected soon and will be discussed in this column.