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Should HFC networks be rolled into the NBN?

There is a clear fork in the road ahead when it comes to the future of the HFC networks. Will they be the main hope for infrastructure based competition or should they be bundled with all fixed broadband networks into the NBN?

The case against

Telstra believes there is “*universally accepted view that competition between end to end facilities based networks represents the best form of competition for end users*”. [1] I agree that the mantra of regulators globally is that infrastructure based competition is superior to service based competition. This is because it is assumed that some control over Layers 1 and 2 in the network is needed to differentiate service competition. For example,

Going further, Telstra has argued that “The existence of a vigorously competing alternative end-to-end network (such as HFC) provides the best prospect of infrastructure-based competition surviving into the NGN world, where the viability of duplication will be tested. It is all the more important from a competition and social welfare perspective to nurture and retain the competitive pressures created by infrastructure competition. Put another way, the loss of actual or potential infrastructure competition in the NGN world may be very costly” [Telstra, para 129]

Of course, Telstra’s motives for pushing this line can be questioned. Only it can exploit HFC and mobile broadband networks for which access is not regulated. Because of its scale, it is the only operator that can make its own network viable despite the NBN.

Telstra’s emphasis on cable as the best hope of providing infrastructure competition surely implies that divest its HFC network if it is to be a major player in the NBN?

The case for

Or, it could change its tune and vend its HFC into the NBN.

The implicit assumption of many June 2008 regulatory submissions was that Telstra would build the FTTN and so their focus was on separation. With the possibility that Telstra may not be the wholesale-only NBN operator, Optus has raised a new consideration which implies that HFC networks should be folded into the NBN. “*Optus believes that if the NBN is the only network it should achieve commercial viability. But if there are two competing access networks around the country, Telstra's and the NBN, then we think the NBN business case becomes a very challenging one.*” [2]

I agree. But Optus may have other motivations. Its offer to vend its HFC network into the NBN may simply be a convenient way to off-load an old network it would rather not spend money on upgrading. Anyway, why would NBN Co. buy two overlapping HFC networks? And, if more than a third of homes passed by the Optus HFC network are not “serviceable”[3], isn’t this the least attractive HFC network?

Plan M

Even if HFC is neutered, there is still the issue of wireless broadband. The longer the NBN takes to get established, the harder it will be to make it viable: just reverse “wireless technology” and “FTTN” in the following quote: “... *even if a wireless technology was able to be constructed to bypass the entire FTTN and could be built at a lower cost than the depreciated value of the FTTN it is unlikely that such a network would be built if the FTTN was already in place.*” (Optus, June 2008, p60 citing CEG. My emphasis added)

No, I am not suggesting mobile broadband has to be bundled into the NBN! I am saying that we had better move faster if we want the NBN.

So what about competition between fixed broadband networks? Which fork in the road should we take? Since regulatory protection against overbuild seems too much to ask, it looks like it all depends on which way the key anchor tenant jumps. If Telstra is a willing partner, the issue will be immaterial – except for those marginal HFC networks struggling to survive. If Telstra does not cooperate, there will not be a viable NBN (or very large ongoing public subsidies).

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[1] Telstra, *Application for exemption from standard access obligations in respect of the Singtel Optus HFC Network*, Dec 2007

[2] Paul O'Sullivan address to a Trans-Tasman Business Circle lunch, quoted in Exchange, 9 June 2009

[3] ACT Decision on the Exemption Order in respect of the Singtel Optus HFC Network, para 85, 22 May 2009