

iiNet Ltd

# Priority Backhaul

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A submission to the Department Of Broadband,  
Communications and the Digital Economy on the  
“Backhaul Blackspots Initiative Stakeholder  
Consultation Paper”

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## Backhaul for Australia

### 1. Introduction

iiNet has been deploying broadband infrastructure since 2004. During that period we have justified the construction of DSLAMs on the basis of cost reduction. This strategy, combined with proactive mergers and acquisitions, has seen the company grow from a largely Western Australian dial-up access provider to arguably Australia's most innovative ISP.

During that period of growth, the enduring hurdle to deployment outside metropolitan Australia has been the cost of bandwidth for traffic back to our capital city data centres. Although backhaul services are 'declared' by the ACCC, no 'pricing principles' are provided by the Commission nor has the owner of the infrastructure been willing to negotiate on commercial terms. The lodgement of an access dispute with the ACCC has had no effect on this theoretically regulated service.

The end result of the prohibitive cost of backhaul is that, although iiNet has over 320 DSLAMs in service, none are truly regional. The business case for deployment for iiNet has relied on an existing customer base within a given exchange area and costs which allow a return on investment within the technical life of the infrastructure.

The capital expenditure (CAPEX or once-off costs) for an exchange are a relatively minor component of the decision making process, the operating expenses (OPEX) associated with deployment are more significant and continue for the life of the deployment. We have estimated that the CAPEX required for regional builds will be higher than metropolitan builds. We may also be faced with locations where no other carrier decides to build, so all shared costs for constructing (rooms, power, services) access will be carried by iiNet.

OPEX costs largely depend upon the cost of Access (line sharing, unconditioned local loop and wholesale line rental) together with backhaul. The cost of Access has largely been resolved via the regulator, however cost effective backhaul is ONLY available where competitive offerings exist. In both central business districts and metropolitan centres, the choice of backhaul providers is generally competitive. In the areas outside capital city metropolitan areas; it is generally not competitive, with typically only one provider - Telstra.

The reason that iiNet has no DSLAM infrastructure outside metropolitan Australia is simply the result of the dampening effect of the cost of regional backhaul on any business case considered.

### 2. Deployment decisions

#### 2.1. Customers

In order to upgrade all iiNet's customers' services to the same standard enjoyed by iiNet's metropolitan customers, we will need to deploy new DSLAMs in exchanges throughout Australia.

In order to prioritise which of those locations the business case for an exchange would prove positive, we start with a count of existing customers. The list of locations provided (see attachment 1) is based on a minimum customer count to meet iiNet's investment

requirements. DSLAMs in metropolitan areas have regularly proven positive for lower customer numbers; however other factors come into effect in the regions, which reduce the number of accessible customers.

iiNet's experience has shown that the deployment of infrastructure has resulted an uplift in customer acquisitions and, although this forecasted increase is factored into each business case, we will not build into exchanges which do not pass the minimum existing customer threshold.

### 2.2. Access blockers

Access blocking equipment such as pair gain systems and RIM technology come into play more often in the regions. The effect of these systems is to isolate customers behind equipment not supportive of competitive access. We have experienced a higher proportion of RIMs in regional exchanges than in metro exchanges, and have, therefore, used a higher cut-off point for customer numbers within a given exchange, in our attachment.

A second, but equally important factor in regional deployment will be exchange access. Many regional exchange buildings are smaller, with less capacity for additional infrastructure. Alternatives are technically possible (such as external cabinets and huts) however the incumbent has not been overly cooperative in granting approval for such alternatives.

For iiNet, interconnection points for any new backhaul would best be located in the existing exchange buildings. However, should this option not be possible, then an interconnection point that allows access within a reasonably short distance of the exchange would be considered suitable.

### 2.3. Stranded assets

iiNet will need confidence that, in deploying new DSLAMs, the equipment will be in service for a sufficient period to earn a positive return. Fibre to the premises technologies will strand DSL based services which require a continuous metallic path. Any investment and deployment decisions will also need to take into account the timetable for the FTTP NBN roll-out to any of the locations on our list.

An additional consideration for the deployment of infrastructure will be the voice interconnection requirements in each of the call charge areas (CCAs) in regional Australia. As a fully interconnected voice provider, iiNet will also need to deploy voice interconnect equipment in up to 66 CCAs.

### 2.4. Bandwidth required

The development of an increasing range of bandwidth hungry applications on the internet has seen backhaul capacity requirements increase steadily. In order to service immediate needs, as well as the increased capability delivered by the NBN, iiNet would prefer a 'dark fibre' option rather than a managed service. Managed services have restricted the development of new services such as IPTV which require a greater level of control for the service provider than is allowed with a managed service.

In order to provide iiNet with the level of control for applications requiring Quality of Service (QoS), dark fibre is the preferred option.

## **2.5. Ownership**

iiNet has commercial agreements with many and varied suppliers. It has been our experience that those suppliers with which iiNet is not in competition at a retail level, seem to provide the most competitive terms and conditions as well as service levels. It is our recommendation that regardless of which organisation actually constructs the infrastructure, the sale and support for any wholesale services must be in the hands of an entity separate from any retail organisation.

## **2.6. Target Prices**

See Attachment 2

## **3. Summary**

iiNet warmly welcomes this initiative by the Federal Government. Given the right cost and service inputs, iiNet is very keen to extend the reach of the services delivered over its iiNetwork.

Our innovative and competitive suite of services is keenly sought after by both consumers and small businesses. We have been conscious that the well documented lack of competitive backhaul (amongst other things) has created an impediment to the extension of metro-equivalent services for regional customers. We believe we are uniquely placed to improve the choice available to a customer base keen to access the wealth of resources facilitated by broadband access to the internet.

We look forward to an outcome that allows iiNet to actively participate in this initiative.

**iiNet Ltd**

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