



**Submission by AAPT Limited to the Department of
Broadband, Communications and the Digital Economy in
response to the *Backhaul Blackspots Initiative Stakeholder***

Consultation Paper, dated April 2009



Introduction

1. AAPT Limited (**AAPT**) welcomes the opportunity to comment on the Department of Broadband, Communications and the Digital Economy's (the **Department's**) *Backhaul Blackspots Initiative Stakeholder Consultation Paper*, dated April 2009 (**consultation paper**) concerning the Australian Government's intention to invest \$250 million to improve the supply of backhaul transmission services to a number of regional centres where there is a current lack of competition on those routes.
2. This is an important issue for AAPT (and we assume that it would also be an important issue for many other service providers) because backhaul transmission services are an essential input into AAPT's supply of fixed voice and data services to residential and business consumers and to downstream service providers on a wholesale basis around Australian.
3. AAPT agrees with the Department that in regional areas where competing backhaul networks are not present there is no competitive pressure on a supplier of backhaul transmission services to offer low prices or higher quality services. As a result service providers that would like to be able to offer competitive retail and wholesale services in regional areas find that they cannot do so. The price of backhaul makes it impossible for these service providers to offer such services in these areas that are competitive.

Locations

4. In order to be able to supply voice services across Australia, service providers, such as AAPT, must either have:
 - points of interconnect (**POIs**) in every one of Telstra's Call Collection Areas (**CCAs**) and there are 66 in total;

- acquire a voice transit service from Telstra or another wholesale supplier who does have POIs in each Telstra CCA; or
 - a combination of the above.
5. In AAPT's case it makes commercial sense to have a POI in each Telstra CCA because the amount of traffic justifies the required investment. While AAPT has a significant amount of fibre in the ground around the country we have not been able to commercially justify the extension of our fibre network into many regional areas. In these cases AAPT has acquired backhaul transmission services from others.
6. In some of these regional centres the only supplier of backhaul transmission services is Telstra (a monopoly supplier situation) and in others the only suppliers are Telstra and Optus (a duopoly supply situation). AAPT considers that prices for backhaul transmission services in these regional centres are excessive.
7. In response to the excessive price of backhaul transmission services to these regional centres, AAPT has:
- made extensive use of compression equipment to keep the amount of backhaul required to an absolute minimum; and
 - restricted supply of retail and wholesale services offered within those regional centres, often supplying voice services only.
8. AAPT considers that the Telstra CCAs identified in the table below are those in which AAPT is forced to pay excessive prices for backhaul transmission services. These have not been listed in any order of priority

Number	CCA
1.	Port Macquarie
2.	Mt Gambier
3.	Mildura
4.	Kalgoorlie
5.	Geraldton
6.	Richmond (Windsor), NSW
7.	Broken Hill
8.	Griffith
9.	Karratha (Port Hedland)
10.	Alice Springs
11.	Wyong
12.	Broome (Derby)
13.	Mt Isa (Cloncurry)
14.	Darwin

9. AAPT considers that if we were able to source competitively priced backhaul transmission services for each of the CCAs identified above that we would definitely look beyond just the provision of voice services in those regional centres and would consider the business cases for providing, for example, broadband internet access services (DSL based) and the provision of data services for business customers (eg mid-band Ethernet).

Stranding risk

10. Of course, AAPT (along with many other service providers) would still face some uncertainty about the eventual rollout of the National Broadband Network (**NBN**) and the potential stranding of AAPT's assets that could result. AAPT would need to carefully consider this stranding risk before installing new DSLAMs in these regional areas. AAPT considers that one possible way of reducing this risk would

be for the Australian Government to publish an NBN rollout plan well in advance of the actual rollout. This may be sufficient to eliminate this stranding risk.

Backhaul pricing

11. AAPT acquires backhaul transmission services from others on the basis of an agreed price per Mega bit per second (**Mbps**) per month. For example, AAPT may acquire a number of 2 Mbps services (or **E1s**) to Port Macquarie for an agreed minimum term. AAPT therefore must pay a certain specified amount each month regardless of what traffic is actually carried over those E1s.

12. Consequently, AAPT has to try and estimate the predicted demand on those routes. This can lead to error, either underestimation or over estimation and it becomes another commercial risk to be considered when deciding whether, for example, to install some DSLAMs in Port Macquarie and start providing Internet access services to the residents and businesses of Port Macquarie. This commercial risk becomes quite pronounced when backhaul transmission services are excessively priced because of the lack of competition to regional centres.

13. AAPT considers that the Department may want to consider alternate pricing approaches for these regional routes which could include:
 - an approach based Mega byte (**MB**) consumption whereby an access seekers would pay per MB of traffic actually consumed as opposed to paying for a fixed block of capacity (this approach is frequently used for international IP transit applications); and/or

 - an approach whereby backhaul transmission services are priced in a manner that is independent of distance, eg the price of an E1 (or per MB if the above option is adopted) to Canberra is set at the same price as an E1 to Alice Springs.



14. AAPT recognises that these new proposed competitive backhaul transmission services would be caught under the Domestic Transmission Capacity Service (DTCS), a service declared under Part XIC of the Trade Practices Act. Consequently, an access seeker would have the right to request that pricing and other non-price terms and conditions be arbitrated by the ACCC.

15. While AAPT acknowledges that ACCC oversight is very important, we consider that arbitrations can be risky when no indicative prices have been published in advance. They can also be expensive and time consuming. Consequently, AAPT considers that the Department should consider requiring the ACCC to either set prices or at least publish indicative prices for these regional routes. This will help improve certainty and encourage investment.