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ENVIRONMENT, COMMUNICATIONS, INFORMATION
TECHNOLOGY AND THE ARTS REFERENCES COMMITTEE

Reference: Competition in broadband services

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SENATE
ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS REFERENCES COMMITTEE

Tuesday, 3 February 2004

Members: Senator Cherry (*Chair*), Senator Tierney (*Deputy Chair*), Senators Lundy, Mackay, Tchen and Wong

Participating members: Senators Abetz, Allison, Bolkus, Boswell, Brown, Buckland, George Campbell, Carr, Chapman, Conroy, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Greig, Harradine, Harris, Humphries, Knowles, Lees, Mason, McGauran, Moore, Murphy, Nettle, Payne and Watson

Senators in attendance: Senators Cherry, Lundy and Tchen

Terms of reference for the inquiry:

To inquire into and report on:

- (a) the current and prospective levels of competition in broadband services, including interconnection and pricing in both the wholesale and retail markets;
- (b) any impediments to competition and to the uptake of broadband technology;
- (c) the implications of communications technology convergence on competition in broadband and other emerging markets;
- (d) the impact and relationship between ownership of content and distribution of content on competition; and
- (e) any opportunities to maximise the capacity and use of existing broadband infrastructure.

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Committee met at 9.03 a.m.**PARK, Mr Brendan Phillip, Director, Products and Marketing, Uecomm Ltd****RIDLER, Mr Graeme, State Manager, Uecomm Ltd**

CHAIR—Welcome. For the benefit of the witnesses, I point out that the committee prefers all evidence to be given in public, but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in private you may ask to do so and the committee will consider that request. You are reminded that the evidence given to the committee is protected by parliamentary privilege and that giving false or misleading evidence to the committee may constitute a contempt of the Senate. The committee has your submission before it, and we have already published it. Would you like to make any alterations or corrections to the written submission at this stage?

Mr Park—No.

CHAIR—I now invite you to make an opening statement before we move to questions.

Mr Park—The Uecomm submission is based around several tenets. The first is that the current, generally accepted definition of broadband in Australia is really broadband light: 512k or less will not get you television quality video or real-time quality video. It will basically get you web browsing that is a little faster, with minimum video. True broadband, depending on your definition, requires significantly higher bandwidth. I contend that it starts at two megabits. Half the population of Korea already has broadband at those speeds. The second tenet is that focusing on extracting the maximum value out of the copper plant is going to limit how far we can go. If you are only going to talk about ADSL as broadband, you are going to be limited to those sorts of speeds.

The third tenet is that optical fibre has the greatest capability of any broadband technology. Instead of going to two megabits per second it can go to 10 gigabits per second; it is more than 1,000 times faster. The fourth tenet is that the delivery of broadband services to corporate and business is a precursor to its delivery to homes. So, if you like, what we are doing today for business is an indicator of what will be happening in homes in the future.

Uecomm is an optical fibre based broadband telco. We already deliver high-speed gigabit services to broadband customers today. We are effectively at the vanguard of delivering this technology—this is the technology of the future—but at the same time we are focusing on today's financial performance. We are not out there at the bleeding edge; we are actually out there making money on this technology. We know what it takes to build a broadband infrastructure from the ground up and what hurdles exist to a rollout. We have identified several hurdles in our submission.

On the supply side the three key hurdles are local council approval processes, access to telecommunication facilities such as ducts in the ground and access to commercial buildings. On the demand side the key issue the government can influence is its own purchasing behaviour. There are a couple of things that we have identified. Firstly, the government actively encourages bundling. If you are a small innovative company you are disadvantaged by that behaviour.

Secondly, the government imposes pretty onerous terms and conditions, especially around things like indemnity. This also penalises smaller companies much more than larger companies.

Senator LUNDY—I would like to explore for a minute the issues around access to commercial buildings, particularly from a commercial customer's point of view. If a tenant in a large office block wants to connect to Uecomm with a fibre connection, what are the steps in making that happen? You mentioned negotiating with building owners. What sorts of barriers confront you that add to your business costs and to the frustration of your potential customers?

Mr Park—If there is no fibre in a building already, we have to dig up the street. There is usually a duct into the building, so we use that and do not necessarily have to dig to the building. Once we connect to the building we can either connect to the tenant or we can put in the basement some equipment from which we can connect to all tenants. If we put the equipment in the basement the building owners generally expect some rent. I think that is a reasonable request, and we usually have a commercial negotiation. The act does not cover that, and I think that is probably reasonably appropriate. If we cannot come to a commercial agreement or if we do not want our equipment in the basement, the act says that we can connect directly to the customer. I think that is the land-use right provision in the act. What happens today is that building owners can put in an objection. They have 10 days to object. If they do object it can be a long drawn-out process to get access. They can use that as leverage to come to a negotiated settlement. Under the act they are not entitled to any lease payments, but they can certainly make it difficult for us to connect to our customers and attempt a commercial resolution to the dispute. That is basically the issue we are facing. I guess the problem with the act is the application of it.

Senator LUNDY—Has that happened to you?

Mr Park—It has and it does. Generally we win those disputes after some protracted negotiations. But what happens is our customers are penalised; they get slower connection time and it can drag on for weeks and weeks.

Mr Ridler—I would like to add something to that. What we find is that the room in the building where they terminate our equipment is not designed for a number of carriers. Depending on the age of the building, there will be enough room for, say, Telstra, who should be there, and maybe Optus, AAPT and away it goes. If you are the last carrier in, trying to do some business, there is no room, so life becomes more difficult, and the cost goes up for each carrier. The first one might have got in free and the second one might have to pay \$1,000. Just pick a number. If you are the last one off the block, you might pay \$10,000 because by then the building owner is running out of room and sees an opportunity. So the cost of actually bringing the service to the building by, usually, the smaller carrier—because they are the last one in—becomes larger. So it becomes an added burden for the carrier.

Senator LUNDY—Can you tell me whether you have encountered any physical access issues or problems with that room in the basement? Or is it the case that, once you have installed your equipment, you have right of access for maintenance, upgrading and things like that?

Mr Park—Part of the agreement for a building owner is to have access to and security for those rooms. That is always part of negotiations.

Senator LUNDY—With regard to Uecomm’s fibre network, you mentioned digging up the street. Can you tell the committee a little about some of the access to existing conduits, trenches or physical pipes in the ground that can either assist you or present a barrier to your rolling out your network?

Mr Park—I do cover that in the submission. Basically, we can use other carriers’ installed facilities. Generally they are Telstra’s, because Telstra have the largest network which has been there for the longest time. We have a facilities access agreement with them. As we do a construction, we will request that they tell us how much duct is free and where it is free. We pay for that. Generally the minimum fee is about \$1,500, but it depends on how long the build is; it could be \$10,000 for a very large job. Then they will tell us where it is available. Where it is available, we will haul our fibre through their subducts. Where it is not available, the only option is for us to construct. We will then dig up the street and lay our own ducts.

Under the act, they have 20 days to tell us whether it is available. In the construction phase, 20 days probably does not sound like a lot of time if you are digging up the street. But when we are quoting to a customer we will not necessarily know that duct is available. When they ask for a quote, we will have to assume that we will need to construct, and so the price is high. If we got a better turnaround on duct studies, we could tell them up front: ‘This will be a relatively cheap construction because there is Telstra duct available.’

Mr Ridler—That is 20 working days, so it is one month.

Senator LUNDY—So when you are quoting for a customer you have to give Telstra one month to tell you whether you can use their ducts or you have to build your own?

Mr Park—Under the act, they have 20 days. Generally they do a fair bit better than that. Ten days is not unusual—but, again, that is 10 working days, or two weeks.

Mr Ridler—If we have a customer who needs the service urgently then we need to construct. If they can wait for the service then we can go through the process, which is normally with Telstra. Most customers, of course, never plan that far ahead, so everything is urgent. It is a chicken and egg situation.

Mr Park—To give you an idea of the importance of this issue—I am not sure if you know how important it is—the cost of renting a duct might be several dollars per metre, while the cost of construction might be \$100 per metre. So there is an order of magnitude of difference between constructing and using third-party ducts.

Senator LUNDY—That is what I would have assumed. So it has big implications for you—

Mr Park—It has huge implications.

Senator LUNDY—and what your quote looks like. You cannot just put together a ballpark figure.

Mr Park—We can assume nothing.

Senator LUNDY—I have another question about how that relationship works. Going back to the example of a large commercial building, do you use the wiring and infrastructure that is in the building when you put your equipment in the basement or do you also install lines up to the tenancy in the building?

Mr Park—We do the whole lot. We do not use anyone else's infrastructure inside the building.

Senator LUNDY—So when you come into a building you wire it up for your services as well?

Mr Park—Yes. For instance, in a multistorey building we would typically come in and terminate on a panel. There may be a switch in the basement, which we would then terminate on, and then we would run fibre up the riser to the floor.

Senator LUNDY—Looking at your submission, I see you have a series of maps of capital cities—in this case, Brisbane and the Gold Coast—showing the sorts of services you provide. What are the sorts of market opportunities you need, for example, to extend your network more comprehensively into the regions and suburbs of the Gold Coast?

Mr Park—I guess we take a relatively low risk approach to investment. While we invested in constructing our original network, any extensions to that network are fully funded by the customers whom we are connecting to. Basically, if you want more network reach the only way that is going to happen is if the customers materialise. In certain instances, there are some very large customers—like DET New South Wales, who have connected a large number of schools to our network—that have caused relatively major expansion. But the usual case is that it is done site by site, customer by customer.

Senator LUNDY—In your submission you talk about Telstra's dominance and some of the big companies. What are the challenges for Uecomm to try and get access to those really big companies and big accounts that could help drive your investment?

Mr Park—I guess we do reasonably well for a company of our size with those major customers. We have major government departments, one of the top four banks, one of the top two retailers et cetera. The key issue for us is that Telstra use their ability to bundle. That is probably the No. 1 thing they do. They cross subsidise. We might give the world's best price on ethernet but we cannot compete on the mobile phone discount because we do not offer mobile phones. That is their general technique. Customers who are relatively sophisticated buyers can do the math and work out whether it is worth unbundling.

The issue that I raised is that a lot of recent government behaviour has involved putting out whole-of-business outsourcing. They are allowing bundling and cross subsidies, which means that if you can only pick up a small percentage of the offer you are effectively squeezed out or are forced into a wholesale role, where you wholesale to a full service provider. Once again, you lose any power that you have there. You just become a supplier of infrastructure.

Senator LUNDY—I am just trying to imagine how a large organisation, government agency or department would bundle. They would obviously bundle their data needs, their telephony needs and a mobile phone contract. Would it be that sort of thing?

Mr Park—Exactly. Even whole of data can be an issue for us because we do not do ISDN in the bush. We are very metro fibre. So even if they say, ‘You have to do all of our data needs,’ effectively while we are not necessarily locked out we have to come to more intricate arrangements.

Senator LUNDY—Have you ever negotiated with Telstra such that you provide the part you provide and they provide some of those services?

Mr Park—We do that. I will not single out Telstra. But we do both with other carriers. We will purchase services off a carrier—for example, Telstra—and we will front the deal, or we will supply services to a carrier and that carrier will front a deal. So we do that.

Senator LUNDY—With your investment in infrastructure—again referring to the maps or diagrams you have—what sort of lead time do you need as a company to contemplate an investment such as a significant roll-out—say 10 kilometres of fibre—to extend the Uecomm network? What sort of lead time goes into that decision?

Mr Park—It depends. Ten kilometres is not equal. Ten kilometres in downtown Sydney is very disruptive. You go through a lot of councils. You might be going through rock and it can be very disruptive. Perhaps down here it might not be such an issue. The lead times vary considerably and not just with distance. But for a major construction it can extend out several months. For a smaller construction it may be within a month. We can have the job completed within a month.

Senator LUNDY—So it really depends on how many different groups, different councils or different authorities you have to deal with?

Mr Park—It depends on how many councils you cross, on whether you are digging up rock or whether it is duct—there are many issues. If you go through a built-up area there may be expensive pavement or you may have to block off streets and block off traffic. There are many issues that go into that delivery time.

Senator LUNDY—Let me go back to the bundling issue. If you could point to a change in the way those rules are managed, what would better suit Uecomm as an arrangement by which you were not disadvantaged by the ability of others to bundle?

Mr Park—I am only talking about Uecomm. It would probably suit us if buyers in the government took a more strategic view. For instance, if they said, ‘We want our hospitals to be capable of telemedicine and therefore we need a certain infrastructure,’ it would be better if they did not just say, ‘Okay, we’ll buy it off a standard panel.’ In fact, often that happens anyway. The central government body sets up a panel, but when the rubber hits the road the hospitals say, ‘There’s nothing on the panel that suits our needs, because we want a strategic service.’ Having said that, if that were made the case up front that would help us. It would help if when

governments say, ‘We want broadband to the schools and hospitals,’ they were to take that separately from the whole-of-government deal that includes voice, mobiles et cetera.

Senator LUNDY—Finally, I want to make sure I understand you. When you roll out fibre—such as the fibre you have coming down into Robina—for any business that wants to sign up with Uecomm you need to install that infrastructure separately from your fibre, with a termination point going out to that business physically. So it is a physical network every step of the way.

Mr Park—Yes, it is a physical network. Generally, the key thing is that when we install our network we put in break-out points, which are basically joints. As long as a customer is near one of those joints, we then do a separate construction out to that customer. Once we have constructed for a customer, obviously anyone who is on that route is possibly near a new pit. So the network branches out that way.

CHAIR—Following on from that organic aspect of network development, I am looking at the maps of your network in the appendix of your submission. Take the example of coming into Robina and Burleigh Waters. At Burleigh Waters, what sort of network do you have? Is that your network or the Ergon Energy network?

Mr Park—That is our network.

CHAIR—Is it a simple fibre-optic cable that goes through Burleigh Waters, or does it already have branches built into it?

Mr Park—Mr Ridler would probably know more about that.

Mr Ridler—I know it is for a specific customer down there. We run a main fibre in the street to that point, and then we branch off from that main fibre in the street to the actual customer.

CHAIR—If you had a new customer at Burleigh Heads, a couple of kilometres down the road, who wanted to join onto that, would they have to pay for that extension or would you extend to there?

Mr Ridler—They would pay for the construction, if we needed to construct. We would first look to see whether we could use existing infrastructure from another carrier. If that were not available, then they would pay for the cost.

CHAIR—Would that be through Telstra ducts?

Mr Park—That is most likely.

Mr Ridler—Or any of the other carriers. But for a large proportion of the time—about 90 per cent—it would be through Telstra.

CHAIR—And that is then routed back into your main fibre cable system at some point?

Mr Ridler—Yes.

CHAIR—I am also trying to get an idea of the significance of the Ergon Energy agreement that you have reached, which was touched on in your press release. I notice that Ergon are appearing later today, so I can ask them a few questions. From looking at their network maps, they might go down the main street of Rockhampton, for example, but not down the streets either side. How would you manage to plug into the Ergon network or make use of that, from your point of view?

Mr Park—The arrangement there is basically a wholesale arrangement. We purchase services wholesale off Ergon. But they would basically be in the same position as we are—that is, if someone is one street away they have the option of working out how much it would cost to construct and then bundling that into the price. If the customer finds that price acceptable then the construction can take place. You do not build everywhere just in case there are customers there; you really do have to have a customer led strategy at some point.

Mr Ridler—I guess an advantage with the Ergon arrangement, however, is that Ergon would have power into each of the locations in the far north. That would go through a duct, so it would be relatively easy for them to run fibre in their existing power duct into the building, and that is one of the attractive things about that arrangement. It is not so in every case, because the duct may be full or whatever, but there is an attractiveness for us to do that.

CHAIR—I was also interested when you were having the debate with Senator Lundy about whole-of-government leveraging issues. One of the things which I have never quite been able to pin down in terms of its relevance in Queensland is the Reefnet fibre-optic cable that the Queensland government got Optus to agree to build. When we took evidence in Cairns during a previous inquiry, there was no way for anyone to access the damn thing in Cairns. I am just wondering how, when those sorts of things are put down, a company like yours would be able to get access to a cable like that.

Mr Park—In general, we can purchase bandwidth wholesale from most of the other carriers; so if we do need to get to Reefnet, there is generally a point at which to interconnect and we can just do the last mile. Having said that, we have never done that with Reefnet but, in general, that is available to other carriers.

CHAIR—In evidence yesterday we had a lot of comments from people about the frustration of last mile and access. What would be your advice to this committee on how to deal with those last-mile issues?

Mr Park—I guess we are speaking from a particular standpoint, and that is someone building a new infrastructure. The particular infrastructure we do is quite expensive and very capable. So for us, the issue is to make sure that there are as few barriers as possible, because it is costly enough to do that. But I think we have covered the main ones. In the end, if we have to dig to get to a customer, it is going to be expensive.

CHAIR—My other question is about your comments about local government. You say ‘the reinstatement requirements in some local governments are very costly’. What is a reinstatement requirement?

Mr Park—A reinstatement is where, say, if you go down the street and you cut across a footpath you have to reinstate the footpath. If you cut across a CBD footpath, you might be cutting through marble, granite or something and you have to reinstate that. So it can be expensive. What we generally like to do is put that out to contractors and get the best cost. With some councils, basically they will use only the council workers and they will charge you some charge that may or may not be appropriate, and we have no way of questioning or checking that. So we are sort of over a barrel there.

CHAIR—Those were my main questions. Senator Tchen, do you have questions?

Senator TCHEN—Thank you. You describe Uecomm as a ‘specialist broadband carrier with extensive fibre-optic infrastructure’. Do you use Telstra facilities? What proportion of your business is carried on the Telstra network?

Mr Park—Can I answer that question in private? That might be commercially sensitive.

Senator TCHEN—I was under the impression that you use entirely your own network, but when you were answering questions from Senator Lundy I realised that in fact you actually use the Telstra network.

Mr Park—Let me answer the question in general—

Senator TCHEN—Just ‘yes’ or ‘no’ will do.

CHAIR—If you want to answer privately, we will have to formally move in camera to take that.

Senator TCHEN—It is not my intention—

Mr Park—We use Telstra duct and we run our own fibre in their duct, but we also resell other services, such as Telstra leased line and other parties’ ADSL services. When a customer buys a service from us, they may need optical fibre at the head end and ADSL at all the branch offices. So we deliver the optical fibre at the head end but we purchase the ADSL services wholesale from another carrier.

Senator TCHEN—I was just trying to get it clear in my head. I was not asking for commercial-in-confidence information. In fact, most of my questions are fairly general. Just going on your experience again, your company started out as the telecommunications arm of a power company.

Mr Park—Correct.

Senator TCHEN—And, now, one of your areas of growth is with your contract with Ergon, which is again linked with the telecommunication arm of a power company. My question is a little bit speculative: do the power companies have an advantage going in to the broadband market?

Mr Park—Yes, they do, anywhere where access to ducts or infrastructure is required. Power companies own their own. Our parent owns power poles in the Eastern suburbs of Melbourne, and that was where we started. It was much cheaper to string fibre from pole to pole than it would be to construct if you had to dig the roads up. Similarly, Ergon has those facilities that they can put telecommunication services into. So, in general, power companies do have access to those facilities.

Senator TCHEN—I ask that because one of the primary issues that keep coming up for us in telecommunication inquiries is the argument that the playing field is not even. Generally speaking, people refer to Telstra as having the advantage—that the playing field is tilted towards Telstra. But it seems to me that the situation would be more complex than that because, obviously, a power company would have an advantage over any other player as a starter player.

Mr Park—Yes, but having said that, the situation is that the power company has invested in ducts for other uses. They made the decision to make that investment, so now they can leverage the money they have already spent to use telecommunications. So it might be a bit unfair to say it is not a level playing field, because anyone else who invests in infrastructure would also have that advantage; it is just that they have two sources of revenue.

Mr Ridler—That is right. Not all power companies have fibre available to wholesale to a carrier; it is only if the power companies themselves make that investment, as Ergon has done.

Senator TCHEN—I am not excluding the possibility of other power companies becoming involved; it just seems to me that this is an area which has been neglected by people talking about competition. There is a very strong potential advantage for power companies that come in to this field. People are not talking about it. It has not come on to their radar yet.

Mr Park—I think it is true that power companies, or anyone who owns other facilities—facilities that run along train lines; other people who own ducts—have an advantage when it comes to telecommunications provision.

Senator TCHEN—Does that exclude Ergon from making their infrastructure available to other carriers?

Mr Park—No. We basically have an agreement to purchase telecommunications services from them. So we are not using their infrastructure; we are buying a managed telecommunication service, and they have the right to sell that to other carriers.

Senator TCHEN—Okay. Is that by choice, or is that a legislative provision?

Mr Park—I do not know. I would say probably not.

Mr Ridler—Ergon's articles are such that they would never offer an exclusive arrangement with one carrier. They are a wholesaler by nature, so their infrastructure is available to any other carrier.

Senator TCHEN—Maybe that is a question I should put to Ergon as well—whether they are comfortable with their apparently somewhat advantageous position. I would like your view on another competition related issue. In your submission you say:

For a carrier such as Uecomm, establishing a presence in a new area is a significant commercial risk. This risk can be significantly mitigated by the presence of an anchor tenant. Government customers as anchor tenants—

can be important. In fact, the Queensland government has claimed a lot of credit for their marketing position in providing broadband. Isn't that also monopolistic behaviour by the government?

Mr Park—It depends on how you take it. But they have to make a commercial decision.

Senator TCHEN—But are you comfortable with it—if, for example, a government comes along and says, 'We have half a billion dollars worth of business. Do it or else'?

Mr Park—We are subject to that and we just take it as a commercial reality. I guess I do not question that. It is not that I do not have a choice on that. So if the government decide to do a whole-of-business deal, so be it. If we win, lose or draw it is their decision.

Senator TCHEN—But you think it is reasonable, from your point of view?

Mr Park—That is a difficult question to answer. When I win, it is reasonable and when I lose, it is unfair.

Mr Ridler—The Queensland government purposely have not bundled, as such, as perhaps the other states have done. Their most recent one has been specific data and/or voice and/or whatever. So it is not all services, as it has been in other states.

Senator TCHEN—I have been on a couple of inquiries where the Queensland government's representative, in their evidence, has put it up as a model of how all governments should behave. I am afraid that I never had the presence of mind to ask them this question. When I was listening to you it suddenly occurred to me that, from a different point of view, it might be monopolistic behaviour. But I will remember to ask them next time. Thank you.

Senator LUNDY—I want to go back to the physical access issues for your network, particularly through councils and commercial building owners. Do you have any opinions or observations about the commercial terms negotiated by building owners for access to their basements and things like that? You mentioned before that if you are the last carrier in you will probably be paying more than others. Do you think that there is a problem there, or are you quite comfortable with the commercial terms that you have negotiated?

Mr Park—I think there is a bit of history. During the dotcom boom, the prices for basement access became quite exorbitant. I guess they are much more reasonable now. As long as the building manager is aware that prices have come down, we do not have too much of an issue. Sometimes they try to maintain a price.

Senator LUNDY—Does the Property Council or any peak representative body get involved in providing advice to you?

Mr Park—No, not really. Melbourne City Council have written guidelines, but there are no rules and there is usually no involvement in disputes. Basically, the way we resolve disputes is that we say we want to put a switch in the basement. If the carrier is unreasonable, we say, ‘Okay, we will not put a switch in the basement; we will connect directly to the customer, under the act, and you will get zero dollars for that,’ in which case the negotiation proper begins.

Senator LUNDY—That is all I wanted to find out. I do not know if there are any other issues. I think the physical access process is an area that we have not explored with other witnesses yet. I cannot think of the right questions to ask, so if you can think of any other specific problems or issues that you want to take the opportunity to get on the record now, please do so.

Mr Ridler—I will give you a state manager’s point of view. People in my branch rarely lose a deal because of the cost of the Uecomm service. If we are going to lose a deal, nine times out of 10 it will be because of the cost of the construction for making the service work. The service itself is highly competitive, through the other carriers, so there is a relatively level playing field. To us the barrier to success—looking from a sales branch level point of view—is predominantly around ‘how do I get the service to the company?’ Let us take this complex we are in now. If my fibre is out on that street—pick a number—it will cost \$20,000 to take it from there. If we have to dig up the asphalt at a cost of X dollars to get it in here then the customer, as much as they want the high-speed bandwidth, immediately has a \$20,000 entry fee into the service. So as a carrier we look at what is the line of least resistance. Getting ducts from another carrier is the least costly, but that involves an extension of time. If it is urgent, as it always is, then we have to pass that cost on. So it is about what is available. Should councils put a duct in the ground, for argument’s sake, and use it as a service to providers? They could own the infrastructure and pay for it, then we would just buy a service from them. That is one way of looking at it. A more timely response from Telstra—

Senator LUNDY—So, whether they are public or private developers, there is potentially a case to put empty conduit, if you like, in the ground at various strategic points, and that could potentially assist you, as an infrastructure builder and provider, down the track?

Mr Ridler—Yes. I will give you an example from the Gold Coast City Council. They are about to dig up a street in Southport. They have advised us that they are going to dig up the street and put in a new sewerage line, and they have asked us whether we would like to put in a duct for future use while the street is open. Putting a duct in the ground is very labour intensive. The backhoe and the people are where the cost is. The cost of the duct itself is next to nothing. So working with the councils in that respect helps us and other carriers to get infrastructure in the ground and, from the Gold Coast City Council’s point of view, it extends the network and makes it more attractive for businesses in the council area to have access to broadband. That is a real example of a win-win situation. That may be something this committee could take on board and extend elsewhere. I am not sure whether it is done in other councils, but it is working well here.

Senator LUNDY—We heard evidence yesterday of an organisation up at Varsity Lakes taking that initiative and facilitating the laying of conduit to try and mitigate some of the costs.

Mr Ridler—As it happens, that was with us. They took the stance of making an investment on which they will get a return some time later on. But they are now enabled to take advantage of it.

Senator LUNDY—That is a really good idea. Thank you. Are there any other issues like that?

Mr Park—I have a couple of quick ones. We did not really go into the local council issues, but the approval process if you want to dig up the road varies from 22 working days to in excess of a month in Victoria—you are dealing with many councils and each has slightly different processes and rules—to several days in Queensland. The councils here are excellent. There is a little plug for the local council.

Mr Ridler—Everything is good in Queensland.

Senator LUNDY—You are saying that that makes a difference to you?

Mr Park—Yes. When we construct we may have 30 days to deliver. If it takes 22 days to get approval, you have a problem. One thing we would like is more efficiency in that. As I said, it varies from state to state. We know that it can be done very efficiently, because in Queensland it is done very efficiently. The other issue I was talking about is the government's own buying behaviour. One thing we have noticed of late is that a lot of government tenders have very onerous terms and conditions, mainly around risk. They have unlimited consequential damages. They fully indemnify the government against any risk. That takes money that we could be using for other parts of the business and locks it away. The issue there is that a larger telco can probably absorb a lot more risk than we can; we find that a problem in competing. The other thing is that the government has taken an 'all benefit and no risk' position. They are not entering into a commercial arrangement, like when we deal with a private company.

Senator LUNDY—Take it or leave it?

Mr Park—Yes. It is not only 'take it or leave it' but also 'we will take zero risk', whereas a commercial company we deal with may say, 'You've given us a very good price, so we're willing to take on some risk because of that,' or, 'You have given us some great capability so we'll take on some risk.' They will find another way to reduce that risk, whereas the government says, 'We will absorb no risk and those are the table stakes.' That can make it very difficult for us to compete. And it is not just us; anyone who is not one of the two major telcos in the country is going to have difficulty with those terms.

Senator LUNDY—That is very interesting. Thank you.

Senator TCHEN—I have one other question, which I not sure whether Mr Park or Mr Ridler would like to answer. Uecomm is essentially a metropolitan and Gold Coast service provider. Do you have any plan or vision—with 'vision' meaning a longer plan—to provide your service in regional and more remote areas?

Mr Park—As I said before, we generally work with partners to form a complete solution. At the moment we do not really have plans to build infrastructure in regional towns, but we will be working with companies like Ergon, who do have those plans. We definitely have plans to

exploit those capabilities but we will probably not be laying fibre in the streets of regional towns.

Senator TCHEN—In moving into regional and more remote areas, can you envisage any particular difficulties you might find that you have not experienced in the metropolitan area?

Mr Park—When you talk about fibre broadband—and that is probably our forte—the cost of backhaul can become expensive. While it is expensive to lay a fibre within a regional town, the costs of getting that high capacity back to the city can be very expensive. I think that was discussed with some of the other witnesses. It might cost tens of thousands of dollars for a two-meg connection, so you can imagine the price of a 100-meg connection. That would definitely be an issue there. The other issue is that, while the cost of rolling out the infrastructure is not as high in regional centres—the local governments are generally more accommodating, because they are seeking investment—the distances form a problem. That is, the TAFE or local plant might be 10 kilometres out of town, and if you have to dig up the road for 10 kilometres that gets very expensive. That is focusing on fibre. I guess you have spoken to other people who could tell you about the other technologies.

CHAIR—When you lay fibre to hook up new customers, is that mostly put underground or do you have some hanging from power poles as well?

Mr Park—We do use power poles. Generally in Melbourne, where we spun off our parent, we have quite a bit of overhead cable, but we do use it in other areas as well. The cost point for power poles is much lower than for digging up the road, but generally the availability of and access to poles is the issue.

Mr Ridler—But suffice it to say that in the CBD and metro it is all underground. The power poles are predominantly only used outside the main infrastructure.

CHAIR—I know you are mostly just talking about the larger customers at this stage, but would you envisage a business plan which would go out beyond that at any stage?

Mr Park—We do have some small to medium enterprises on our network now, but generally it is because they have very high data needs. For instance, they might be a post-production company doing videos and movies; they would be a small company with smallish revenues but huge amounts of data. Those sort of people are already looking at fibre. But I think businesses are hungry for bandwidth, and as time goes on customers are going to be demanding services that cannot be delivered on the existing technology. I cannot give you an exact time frame for when it is going to happen, but you can see that there is more demand from smaller customers for us, and the question is: is it ever going to go down to mass market SME? At some stage it will. I cannot tell you how soon.

CHAIR—Thank you very much.

[9.48 a.m.]

BYTHEWAY, Mr Leonard Brian, Chief Executive Officer, Australian Communication Exchange Ltd

ASTBRINK, Ms Gunela, Policy Advisor, Telecommunications and Disability Consumer Representation

CHAIR—We have just received the submission from TEDICORE—Telecommunications and Disability Consumer Representation. The committee has resolved to accept and publish that submission. I welcome the witnesses. Thanks for coming down to the Gold Coast from Brisbane on such a beautiful day. Thank you for agreeing to be heard together. It is helpful to our program. Mr Bytheway, the committee has before it your submission, which we have already published. Would you like to make any alterations or corrections at this stage?

Mr Bytheway—No.

CHAIR—I now invite each of you to make an opening statement before we move to questions.

Ms Astbrink—Thank you very much for giving TEDICORE the opportunity to appear before the committee. We really welcome it. Some of you may know me from previous inquiries, but I would like to introduce TEDICORE and the way that we operate. TEDICORE, which stands for Telecommunications and Disability Consumer Representation, are funded by the federal government through the Department of Communications, Information Technology and the Arts. The aim of TEDICORE is to improve access and equity in telecommunications for people with disabilities in Australia. We have a project advisory body comprising peak disability bodies in Australia. That enables us to have a grassroots understanding of the issues, which we then discuss with government and industry and feed back to consumers when it comes to particular issues.

With regard to competition in broadband services and the issue of broadband for people with disabilities, TEDICORE have a vision. That vision is that people with disabilities, like any other Australians, will have equitable access to broadband technologies. In order for that to happen, we need, for example, to have affordable products and services which are functional and appropriate for people's requirements. In order to achieve some of this, we need involvement and consultation with government and industry on broadband developments, we need research and development into a range of activities regarding broadband and accessibility, and we need strong compliance with industry codes and standards. We feel it is important to have government leadership to achieve a satisfactory mix of competition and support to reduce the digital divide.

To clarify the disability market: the Australian Bureau of Statistics in 1998 specified that over 19 per cent of the Australian population have a disability. Our ageing population will naturally increase that number. As people age, there are functional limitations, as I think we all recognise.

I would encourage the government to follow some of the areas in the action plan of the World Summit on the Information Society, which was put together in Geneva in December 2003. Some of those areas are specifically relevant to what we are talking about here today. For example, the plan talks about the involvement of civil society in dialogue with governments in a consultative role. It talks about involvement in national e-strategies to develop appropriate universal access policies and strategies et cetera. There is a range of other material here which we may discuss this morning. Finally, I wish to apologise for TEDICORE supplying a submission so very late in the piece. I seek your indulgence for that. Thank you.

Mr Bytheway—Thank you for the opportunity to come along today. Australian Communication Exchange, whom I represent, are probably the largest telecommunications provider in the disability sector in Australia. We are a not-for-profit company, and we are consumer based, so our board of directors has a majority of people with disabilities as directors of the company. Likewise, we have many people with disabilities working within the company. So we are a service provider but of the community at the same time. We recognise organisations such as TEDICORE, the Australian Association of the Deaf, Deafness Forum and Better Hearing Australia as appropriate advocacy and representative bodies for people with disabilities. However, we are sitting here today as a service provider that provides quite a lot of services in that area.

The history of telecommunications access for people with disabilities in Australia is a typical ‘good news, bad news’ story. If we look back 10 years, Australia was a long way behind most developed countries. In that last 10 years we have come a long way: we have developed the National Relay Service, which we provide under contract to the government, and we have equipment distribution programs for people with disabilities. Things were looking pretty good. In fact, we have the world’s first text based emergency call service for people with disabilities to be able to get access to police, fire and ambulance. In 2000, when we changed from the analog network in mobile phones to the fully digital networks, the world started to change for people with disabilities and we went backwards. In fact now in 2004, with a substantially greater number of mobile phones than fixed networks, people with disabilities actually have less access to the telecommunications network than they had prior to the year 2000—so we have actually gone backwards.

What is the significance of that and how does that fit with this committee? Rather than look backwards and try to fix problems based on old technologies, we believe the solutions lie in some of the innovations that are coming out of the IT industry, and we believe that broadband services in particular are well disposed to provide quality services for people with disabilities. In particular, we are looking at text based services. Clearly, text and digital services and broadband fit very well together, so that text phones and text communications on mobile phones, whether they be 3G or GPRS or even existing digital phones, provide greater potential access.

More exciting, and perhaps more significant, is the use of video and voice together as a way of communicating. For people who use sign language, people for whom sign language is their first language, the video capability of broadband is a very exciting possibility for the future. Likewise, we tend to think of the signing deaf, but there is a lot more than that. People like us—I have just recently turned 50, so I am now all of a sudden aware of such things—are relying more and more on speech reading in communication. As our ageing population expands, the capability of presenting both visual and audio information in telecommunications will become much more

significant. People will be able to communicate more effectively and become more able to participate in society, community, work, leisure, health, recreation and so on if they are able to communicate effectively, and I think visual communication will provide that access. Broadband is the vehicle that will deliver that. It is really very exciting as a possible solution for problems, but it can also be quite daunting if we allow our networks to go out in a substandard way, and that is one of the concerns that I have. Video then, obviously for sign language, has some really clear applications, but it goes beyond that. It goes to us and our ability to communicate using lip-reading and visual as well as audio information. People with physical disabilities can communicate much more effectively if they can, again, couple visual information so they can use gesture, body language and so on. If you have worked with people with severe disabilities, you will understand how that is the case.

Looking at the international scenarios, we find that the UK has a service called Health Direct, which is part of their NHS service. It is a phone-up service where people can access telephone medical and health support services. It has been running for a couple of years. Health Direct have just advertised for a video access version for people who use British sign language as their communication language. Again, that is heavily reliant on the availability of broadband services in the UK. In the US two years ago, the Federal Communications Commission approved the video relay services to be funded under their funding provisions for relay, which means that people can use broadband services to use sign language to make regular telephone calls—much more efficient and effective than regular text telephone services. Again, these are not just things that may happen in the future; these are real services that are being delivered today.

Our message is that the future of telecommunication access for people with disabilities, who will include us in a few years time, will rely heavily on broadband services and that those services need to have sufficient dimensioning and sufficient interworking so that these kinds of services, particularly video services, are available for all of us when we need them. A quick point in that regard: broadband is fairly loosely defined, and in Australia we are more than happy to suggest that a 64k service is broadband. Let me tell you that, if you are using sign language or visual communication, it is nowhere near adequate. The absolute bare minimum bandwidth for sign language interaction on a high-speed computer on a really good system would be 128, and that is far from ideal—256 is much more acceptable.

Interestingly, when I have discussions with my colleagues in the UK and the US and we talk about implementing the kinds of services that they have there, and I talk about the networks available here, they say: ‘Don’t bother. A 64k uplink? I don’t think so. It’s not going to be delivering the service you need.’ If we somehow allow ourselves to build a substandard Australian communication infrastructure, then we will be painting ourselves out of the potential benefits that these sorts of services will offer in the future. That is our position.

CHAIR—Thank you. I notice, Mr Bytheway, that you talk about the approach of the US Federal Communications Commission. When you say that they commenced reimbursing relay providers for the video relay services, exactly what does that mean in a policy sense?

Mr Bytheway—The relay service here in Australia is funded through the Telecommunications Act through a levy on carriers, on a proportional basis, using basically the same formula as the USO formula. In the USA it works in a slightly different way. Each state provides its own relay service and funds it in whatever way the state chooses to fund it—usually by a levy on

consumers: 10c per bill per month, or something like that. However, in the US, to make an interstate call you have to use a different carrier than for an intrastate call, so they have had to set up the new pool of funds called the interstate relay levy. Each state contributes towards it, which builds a pool, and the Federal Communications Commission manages that pool and allocates funds on that basis. It is quite a different scenario than we have here. Here, we have one national relay service and one funding mechanism; in the States they have a state funding mechanism and a federal funding mechanism.

CHAIR—But, in terms of what is being reimbursed, what is the difference between what is being reimbursed under the American system and the Australian system?

Mr Bytheway—In the US they have what they call IP relay, so you can go to any browser-enabled device anywhere in the USA and connect to a webpage—assuming you have broadband access. You can go into either relay service or video relay service and there is an agreed rate per call minute, which is published. That will then fund the delivery of your call using either the IP relay, which is text, or the video relay, which is visual.

CHAIR—To get Australian policy up to that sort of level, what would you require?

Mr Bytheway—Basically, the national relay service is under the Telecommunications Act. I do not think it is even an amendment of the act; it is simply a matter of regulation to allow that to occur.

CHAIR—That is what I thought. The TEDICORE submission referred, I think, to Korean experience of fairly hefty discounts on access to broadband. Are there any lessons for Australia in that, do you think?

Ms Astbrink—Yes, I think so. It is a very good example, I think, in Korea. We know Korea is leading in infrastructure but also in content development and in getting out broadband to the whole community, because they really want to include the whole community in broadband uptake. They realise that there are people who cannot afford the costs. With the Digital Divide Act they have there, they ensure—with 50 per cent discounts on connection costs for high-speed Internet connection—that people are more able to get access. Certainly, it is something that TEDICORE has been advocating for quite a long time—that there be an Internet allowance, that there be discounts and so forth. For example, Women With Disabilities Australia have done a survey in the past about some of the barriers to uptake, just to Internet services for their members, and affordability was one of the key factors. So we are very concerned that people with disabilities do have the opportunity of getting access to broadband, and certainly an example like this from Korea shows that it is possible to do so in a variety of different mechanisms.

Mr Bytheway—I would add that in Queensland at the moment we are about to engage in a trial program involving Queensland Health, the PA Hospital, the Queensland Deaf Society and ACE to look at the use of a videoconferencing capability to provide remote mental health services for people who are deaf. It is a specific activity, but I guess it highlights that, Australia being a very large continent with quite a dispersed population, getting access for people with disabilities, particularly low-incidence groups like people who are deaf, is quite difficult in remote areas. These kinds of specialised services like specialised mental health services are

really difficult to provide to rural and remote areas. The capability to use this kind of infrastructure to allow people access to these specialised services will be vital to health care in Australia. Health is just one example, but there are similar implications for health, education, legal access and so on. Again, access to decent infrastructure will be critical to that.

Senator LUNDY—Regarding the issues around disability access—I know it is in this submission and has been in previous submissions—can you describe some of the barriers of the existing digital services, particularly mobile services, and how they inhibit people with disabilities from communicating?

Mr Bytheway—I am trying to think of the short answer to that one! Using mobile phones as an example, when we first eliminated the AMPS network we discovered in fact that the only viable alternative network was the GSM network, which of course caused interference with hearing aids—not just with the person using the phone but anyone within a metre using a mobile phone. It interfered with people’s ability to use a hearing aid. It was luck rather than good management that the CDMA network did not cause that level of interference. So again there is an example of how we should be looking at what we are implementing and the impact that will have on the community before we allow it to be rolled out. There are some thoughts about how that might happen: just as we conduct an environmental impact study for a major development, there is the concept of having a community impact study before we have a major technology change—either adding to or subtracting from our existing technologies.

We need a formal process of determining whether, if we take something away, we are all of a sudden going to have a bunch of farmers screaming or people with disabilities no longer able to communicate. I think that is an important concept that might be worth pursuing somewhat. We have written some papers on the subject some time ago. Gunela is probably best to talk about other disability access issues like universal design and the way in which things are constructed. From my perspective, access to networks and access to telecommunication infrastructure is key. A so-called broadband service with a 64k uplink is useless. Yet people do not know. When you buy a product, they do not say, ‘This is a 64/128 service.’ They say, ‘This is a Little Pond service,’ or whatever, and people naively purchase the product only to discover that it does not deliver what they thought it would to them or to the person at the other end whom they need to communicate with: ‘Even though I bought the biggest, broadest bandwidth service, the person I need to communicate with has a narrow bandwidth service at the other end, and we are stumped.’ Those sorts of accesses are key issues. We need some quality information and some thought going into, when we put things out there, how they will impact on future capabilities.

Senator LUNDY—Given your advocacy of the concept of ‘any to any’, but with video having, I suppose, the ultimate usefulness for people with disabilities, what are your views or observations about many of these middle-range bandwidth services like 256 ADSL or the new CDMA data product, which I think is 144 kilobits per second? What opportunities, if any, do those types of—they are not really broadband services—faster speed services present for the disability community? Incidentally, that is my phone making that terrible interference noise.

Mr Bytheway—If you had a hearing aid, that would be unbearable.

Senator LUNDY—Yes, and I think that is a really important point to make.

Mr Bytheway—I call myself a ‘technoptimist’, which means I am always optimistic that we will find appropriate ways. But I think that means we also have a responsibility to ensure we explore both the options and also the negative side of any new technology we roll out. There is a certain carrier that is advertising sign language on their mobile phone network, which is deceptive. The reality is that a father and his deaf child cannot use the particular services being advertised to talk to each other in the way that they do. There are a whole range of reasons for that. For a start, if you have a phone that close to you, you cannot see signs—all you can see is a small part of your face. There is a great little photo of a cup with a mobile phone sitting in it, because that is as far as you have to be to get enough visual space to see the signs happening on the phone. But then you only have a tiny screen at the other end and you cannot see what is happening on the other side of the communication. There are a whole lot of practical issues that are deceptive—to be polite. But I am optimistic that we will find ways around those. This leads onto Ms Astbrink’s discussion on universal design, which is probably an appropriate discussion to have because potentially these are real opportunities, but we need to capitalise them.

Ms Astbrink—To put a positive side to it, if products and services are designed using universal design principles—for example, flexibility in use, intuitive use, tolerance for error et cetera—then those products can also be very valuable for people with disabilities. Often it is not suggesting doing things that are very different or unusual, but it is just being thoughtful about the design and using good design principles. In that way, those products and services are going to be more available to everyone in the community. From the international perspective, there has been a lot of work done in this area. There has been a lot of standards work done in ISO and ITU-T, in guidelines for standards developers, to ensure that products and services are provided in good formats. In Australia this year we will be starting on a set of guidelines to assist in the producing of phone handsets that are more accessible, but we have to be clear that they are guidelines.

It would be very helpful if a government took these guidelines and said, ‘This is a very useful way for the government to purchase products for government departments’—as in public procurement. For example, if those guidelines were used to have a mobile phone handset with particular keys on the handset which were adequately spaced apart, and a particular size of screen and a minimum size and so on, and if the government said, ‘They are the guidelines we are going to use when we purchase goods,’ that would certainly assist industry in Australia to ensure that the products would be available for the rest of the population. That has certainly been a very useful way in the US, through section 508 of the Rehabilitation Act. It is also something that has started to be implemented in some European countries, and we are also seeing that approach in Japan. It is not as if we would be putting up trade barriers if we had guidelines like that when importing particular products. It would actually be assisting us in not becoming a dumping ground for goods that are inaccessible and cannot be sold in other countries.

Senator TCHEN—I think the message from Mr Bytheway and Ms Astbrink is loud and clear. Obviously broadbanding could potentially help the disabled communities. I do not have any particular questions for you. I think the message is quite clear.

CHAIR—Thank you very much for your evidence this morning—it has been very helpful. Thank you for the submission, albeit a bit late and a little bit hard to read on a couple of pages.

Ms Astbrink—I sent an email copy last night that is perfectly readable.

CHAIR—Excellent; thank you very much for that.

Proceedings suspended from 10.15 a.m. to 10.56 a.m.

DEME, Mr Andras Ferenc, General Manager, Nexium Telecommunications**McGREGOR, Miss Megan Elizabeth, Commercial and Regulatory Manager, Nexium Telecommunications**

CHAIR—Welcome. I know you have travelled down from Brisbane, so thank you for coming down and fitting in with our program today; it is very much appreciated. We have copies of the materials about the network which you gave the secretariat last week. They have been very helpful and I have a few questions about them, but I invite you to first make an opening statement.

Mr Deme—I appreciate the opportunity to speak and the fact that you are taking the time to listen to where we are coming from and what it is that we are attempting to do. The first thing I would like to say is that Ergon is absolutely fair dinkum in what it is doing with telecommunications in regional Queensland. There is no question that we have the full support of the corporation behind us. We are effectively building a business within Ergon and not trying to build a business outside Ergon. When we think of telecommunications in Ergon we say that it is ‘power and telecommunications’, which is a little bit of a different business model.

The business development team within Ergon has discovered a way in which corporations that have a large asset base and a large amount of excess capacity can commercialise their telecommunications quite effectively. There are corporations in Australia and overseas that have struggled with that, and I know we have read the press and seen those articles. But I would like to explain how we have done it in such an effective manner. It is a huge plus for Ergon itself; it is a massive boost for other, smaller, carriers and certainly larger carriers that we are in discussions with; and it is a massive boost to the economy—the pure economic benefits of what we are doing are outstanding.

Firstly, I will talk about where we came from and give you a bit of a history of why we have done what we have done. Originally, Ergon came from six corporations. There were six distributed power companies in regional Queensland. I do not see that there is any possible way that we could have done what we have done when we had those six distributed power companies. The fact that those were brought together into one company in regional Queensland has made it much more effective—we operate as one company and we operate a power network as one organisation, therefore we have to operate our own telecommunications distribution as one organisation. That is a huge differentiator for us. Within Ergon, there are certainly a number of people who, if you go back 20 or 30 years, absolutely wanted to provide telecommunications capacity to the market on a commercial basis within their own power company. They have struggled with it over time but, as you know, in power companies people rarely leave and so some of those wise people are still there and still supporting us.

We had what we call pilot cable—twisted pair. There is a lot of twisted pair in power companies around the world, and there is a lot of twisted pair in Ergon. Some of that twisted pair is 25 or 30 years old, and I think every telco is probably struggling with the age of the copper. We certainly started to struggle; ours is up in the air—it is not really that well protected compared to others. We ran through a process to decide how much we would have to replace,

when we would have to do it and what we should replace it with. Obviously, we came up with fibre as the answer. It was much more economical to replace it with that rather than copper.

A project scope was put together, and we decided that instead of trying to build the fibre as we needed it—it was really hard to justify business cases to build to a particular substation—we decided to run a four-year program to build about 300 kilometres of fibre. We needed 24-core fibre for our own use. At that particular time we decided that we should implement 36-core. We made what I guess you could say was a pretty brave decision. We made a decision that said: ‘We need 24-core for our own use. Let’s implement more and let’s try to make that available to the community. If we can’t, that will be a real shame, but you have to bite the apple and chew really hard.’

The program to roll out that fibre has begun. It is about a year and a half old. We continually brief the board of Ergon. In one of those briefing sessions we realised that we were providing so much value to the corporation to manage its data, which is why the copper and fibre are there, as well as to provide enterprise communications—IT, voice and data—that the board has requested that that be rolled back into a two-year program. They gave us slightly more money and slightly more resources and asked us to chew a whole lot harder, which was interesting in its own right. If you are working internally, it is quite a challenge. We have about a year and a half of that to go. I do not know that we will get it done in two years—I think we will probably go over by about six months—but it gives you an idea of the level of support that we have within Ergon.

So that gives you some history of why Ergon is rolling out fibre for its own use. I will reference the maps. Across the nine towns, the first phase of the fibre roll-out is quite a strong approach to regional Queensland. We are already seeing the benefits of the fibre in locations. In Rockhampton, we have interconnected three of our depots with a one-gigabyte service for our enterprise communications. We now have a DRP site set-up that we otherwise could not have had. So for our own corporation it is a bit of a no-brainer.

Then, as that fibre project was kicked off, we had a number of processes running in the background. We had an EOI that was kicked off. The EOI was basically about who we should work with and whether there were carriers out there that can help us commercialise. I must admit, in hindsight, that it was kind of a strange process. It really helped educate our corporation and the members in the corporation about what was actually possible, who we could work with and how we could work with them. At the end of the day, in a nutshell, we decided to create a wholly owned subsidiary of Ergon. That is the business that I run. It is called Ergon Energy Telecommunications, operating as Nexium Telecommunications. That is our brand in the market.

The wholly owned subsidiary has a carrier licence—carrier licence No. 126. It has a board. The chairman of Ergon is also the chairman of Ergon Energy Telecommunications, or Nexium. One of the members of the board is a director of both organisations as well. In our constitution, as part of our approval process I was absolutely adamant that I did not want to provide retail services to the market. I see no sense in a power company or any organisation moving straight into retail. I think if you are an infrastructure provider it is a very difficult market to move into: it is highly competitive; the billing systems probably take every last bit of margin that you could possibly ever earn. I think Ergon’s bread and butter is poles and wires; that is what we do. We effectively provide fat pipes of power, and now what we are talking about is providing fat pipes of telecommunication. It is not really a very different business model at all.

In our constitution, it clearly says that we are a provider of wholesale services only. At this stage, unless someone much more motivated than I am decides they want to turn it into a retail company and go through the business case and the approval process it simply is a wholesale provider of telecommunications. We see Nexium's role in regional Queensland as being to support carriers and carriage service providers. That is our customer base.

I think you will have seen in the press a HOA and contract negotiations with Uecomm. Uecomm is an excellent example of a carrier that does not have infrastructure in regional Queensland. There is probably not much sense in every carrier trying to build infrastructure in regional Queensland or in regional Australia. Having five or six sets of it does not make much sense. I think Nexium are providing access to the capacity on a commercial basis, so there is fair pricing across carriers and carriage service providers. Companies like that are absolutely interested and absolutely keen. We have seen a massive amount of interest in what we are doing.

We also do a little bit more for ourselves than you would probably otherwise think. We are a wholesale carrier that believes that our customers are carriage and carriage service providers. I will reference the Cisco model because it is the only one that I know. It talks about pull-through sales. Cisco has a very good relationship with its customer base. We also have a very good relationship with our customer base. In the middle of storms there are Ergon people sitting on poles trying to fix the power. In regional Queensland they earn a massive amount of respect. We all talk about the power being off, but we know that these staff are actually out there solving the problems for the community. Effectively we can leverage that and talk directly to Queensland Health, the department of transport or industry—BHP, QAL et cetera. We can talk to large corporations—knock on their doors and talk about how we can support their telecommunications requirements—and we can do it on a large scale across regional Queensland.

Here are a couple of issues. There are things for which we certainly need ongoing support. I think we dealt with the first issue ourselves. We are a CAN—customer access network—and last-mile provider. That is exactly what we think we do for a living. We think we are solving the problem that nobody else in Australia is probably going to solve on such a large scale. We see carriers that create themselves in geographical markets that work for them—one-town solutions, if I may put it that way—because of the market segments. In Perth or in Canberra there are specific examples of a new start-up, creating a last-mile solution, and it works in those market segments. It is hard to find that across a state; it is hard to find anybody who has said, 'We're going to roll out five last-mile solutions in nine towns.' We decided fairly quickly that creating a last-mile solution in nine towns might leave us stranded or exposed. It might be that we talk to carriers and they say, 'That's really good, guys; you've put in a last-mile solution, but we're not sure that we want it.'

To minimise the commercial exposure we started working with another company in Queensland called Powerlink, which is the transmission supplier of electricity between the towns in regional Queensland. Powerlink had a similar requirement to ours, and we have worked together throughout the last 2½ years. They did a similar thing to us: they decided that they needed capacity between their towers and to monitor their power. It was smarter for them to roll out a 10-gig network—and I believe that there is a contract between the universities and AARNet to support that—and that was very effective. We have negotiated a contract with Powerlink to help minimise our exposure and their exposure. We now have the ability to sell capacity from any point in Rockhampton to any point in Townsville and back to a POP in

Brisbane. The minimum connection speed is 10 meg, so we say that the service is fast—it is real broadband.

Powerlink have also minimised their exposure. They have managed not only to provide high-speed access between the towns in regional Queensland but also now to work with Ergon to provide those services to a point in the town. So they are not exposed and they are not stranded—they are not sitting at the edge of town saying, ‘Gee, we’d love to talk to someone who owns infrastructure in this town, but there is only one and it’s not always competitive and it’s not always easy to negotiate with.’ That contract is finalised—I think it has been finalised for about three or four months now.

We are also talking to other backhaul providers between the towns to ensure that we cover as many of those regional communities as we possibly can. We are now already starting to think about extending our fibre roll-out for our own needs. Some of these projects take years to develop and get up. For example, it probably took us a year and a half to develop the fibre roll-out project before we started rolling out fibre. We are getting to the point now where we are again starting to think about where we need to roll out fibre. So I would say the nine towns is probably phase 1 and it will continue for a long time.

What have we done? We have been out talking to carriers and to end customers. To summarise, I have learnt that there are two things that are quite important for Ergon and Nexium to succeed in Queensland. The first is that we absolutely need support; that is unquestionable. We obviously need support from our customer base—from carriers and carriage service providers. I think we are well placed to be able to deliver what they need. To be able to provide high-speed ethernet services point to point from anywhere in a major town in Queensland to anywhere else in a major town in Queensland I think is a fair differentiator. I do not know that anybody can do that. We absolutely need their support. We certainly need the support of our own corporation—Ergon. I think that has been very much forthcoming. We certainly need the support of government.

What I think is hard to deal with is funding opportunities like CCIF about infrastructure. That is an absolutely fantastic opportunity but, when I think about how much Ergon is having to spend to build fibre infrastructure for its own needs, I am not sure that \$20 million spread between five or six geographical regions in Australia is actually much money at all to build infrastructure. I think you are looking at point solutions. I think corporations like Ergon have a fantastic amount of vision: build out fibre for its own use and look to extend that. Ergon will not extend fibre to a customer’s door for its own needs at this stage. I do not know that we have got much requirement to get fibre inside a building for our own needs. That might change in the future with billing and power monitoring et cetera.

What we need is either the customer to pay for that as part of the price of a service or government funding initiatives. Probably the one that I am reflecting on is HiBIS. I am not sure where we really fit into HiBIS at the moment. I think it is a fantastic amount of money. That may help people get access to DSL—and correct me if I am wrong—but does it really provide a massive amount of economic benefit to business in Australia? I talked about my own patch in regional Queensland. I am not sure that it does. I am not sure that DSL spans are what businesses are really after. If I can go home and get a faster connection than I am getting at work, the fact is that I have to share it with everybody else. I am not sure that that is a massive opportunity for

my corporation. So we are talking to customers about 100-meg connectivity in the state. I would love to be able to get access to HiBIS for those corporations that are trying to base themselves and industries in our state. I would love to get access to federal government funds to build infrastructure to these large businesses. That is it in a nutshell.

The second issue is probably less about Nexium Telecommunications and more about struggling with coming up with the silver bullet for solving the problem with the uptake of broadband in Australia. I set myself a task and said: if I am going to sit here and talk the talk and walk the walk, what is going to solve the problem? I approached that in two ways. I think there is no silver bullet. There is no one solution and no one strategy. We are daft if we think there is one. If you look around Australia, you see that Western Australia has a different geographical make up: it has a different population density and a different network needs to be built. In Canberra that is being solved in a different way. In New South Wales that is being solved in a different way. In Queensland you have got a company called Ergon that has already rolled out a massive amount of fibre and I think there is an opportunity to solve that in a different way. So my answer to that tried and true tested question is: I think you actually need to look at the geographical make-up, the market and the commercial opportunities.

I think there are two kinds of commercial opportunities. There is a commercial opportunity for the actual corporations—the big players, the large asset owners—to play in the telecommunications asset space and to provide capacity to their geographical region. There is also a part for the customers to play. There are large corporations in regional Queensland which, if they could get access to 100-meg services and above, would redesign their IT infrastructure. I can absolutely speak to that, because Ergon is one of them. We are now in the process of redesigning our IT infrastructure. That will provide us massive advantage. So my answer to the question, ‘How do you improve competition in broadband?’ is: select the area that you want to play in and select the strategy for the particular area that you want to play in, because there is no silver bullet. Thank you very much.

CHAIR—Thank you. Is Ergon Energy part of SmartNet, which the Queensland government announced in December?

Mr Deme—There is no contract in place for Ergon to be a supplier of service to any of the carriers that have been nominated for SmartNet, but there are negotiations continuing.

CHAIR—Right. I was looking at your network maps for some of these towns. Excuse me if I sound a bit lost here, but right through this inquiry and the committee’s previous inquiry I have struggled with how the power companies are going to get enough fibre into an area to really provide adequate competition for the telcos. Looking at the maps, you are getting within a couple of kilometres of the last mile—

Mr Deme—Absolutely.

CHAIR—in some of these areas. What is the next bridge after that—things like the carriers through Ucomm and people like that?

Mr Deme—No, no. Remember, the towns you are looking at are not that large, but I am sure you have calculated—

CHAIR—I was looking at Toowoomba, for example.

Mr Deme—Yes. I am a Toowoomba boy, so I can talk—that is a good town to choose! What Ergon has done is roll that fibre out for its own use. So it is connecting substations and key points of power connect. That is Ergon Energy—that is, EECL, the power corporation itself. My business, Nexium Telecommunications, is responsible then for connecting the end customer to that network. So Nexium take the responsibility of negotiating with the customer to sell the service and then supplying that fibre connection to the door. We actually do that ourselves.

CHAIR—At this stage you have an agreement with one carrier; do you think you will be getting more carriers on board?

Mr Deme—Absolutely. I do not know that this has happened a lot in Australia, so when you are talking to the carriers the first thing is that they are a little bit puzzled. Uecomm were exceptional in that they were one of the first to see an opportunity. We have had, I would say, much more detailed discussions with a larger number of carriers in the more recent months.

CHAIR—How does Ergon and Nexium's approach differ from that of other power utilities, particularly the Victorian ones, which are fairly new to the area of trying to provide fibre-optic roll-out?

Mr Deme—We have put a peg in the ground and said, 'That's how we're going to run our business.' We are wholesale only; we are not retail. We have developed the capacity ourselves, so we are selling ethernet services. We are not all things to all people. We are not selling access to the asset and we are not selling off access to the fibre itself. We have come up with a specific product range and a specific market segment that we want to operate within. What that has probably done for us is decrease our cost base of operating in that space. So our network management centre only has to manage a specific product range, and our fulfilment teams only have to fulfil a specific product range. In our negotiations I think it is very clear to our carriers what it is we actually do—instead of saying, 'We'll pretty much do anything,' and then the negotiations flounder and they go round in circles. That is probably what has differentiated us the most. The other thing is the spread; we are not a one-town enterprise. I think we will end up having a fair effect on the market, if we get those levels of support that I was talking about.

CHAIR—Is there a matching network in Brisbane?

Mr Deme—No, we are not a Brisbane based organisation. We are north of Maroochy and, I think, out from the bottom of the Toowoomba Range. So, no—and we do not intend to provide fibre services in Brisbane. We think Brisbane—

CHAIR—Energex is not proposing to do that?

Mr Deme—I am not sure what Energex's strategies are.

CHAIR—Right. How does the Queensland government's decision, through SmartNet, to put the screws on Optus to push out extra fibre into places like Rockhampton, Cairns and Townsville affect your business plan?

Mr Deme—I think what Optus have done is to lay fibre where it makes sense for them to lay their own fibre—in the highest density part of those towns. I can see that that makes sense for them. I think Optus will still talk to us about locations further out in those regional towns and about us supplying services to them as well. It is a very expensive process to roll fibre across 15 or 20 kilometres of regional country town, and I think that is probably the value that we offer.

Anyone with half a brain, so to speak, can put a piece of fibre down the main street of a town, drop a couple of ethernet boxes on the end, sell a service and tell the world that they have created a massive benefit for the town. What is really hard is to get to the business on the edge of that town. Not everybody can run their industry from the downtown CBD of Rockhampton, and that is certainly something that Ergon understand very well. We have to distribute power around those towns, and we do not just put a power pole in the middle of town and say: ‘There you go. If you want power, move to the CBD.’ I think carriers have typically done that in the past—that is, say ‘If you want telecommunications, everybody, come downtown.’ It is probably not a good long-term strategy for economic benefit.

Senator LUNDY—I am interested in a little more detail about some of the arrangements that you enter into with your retail service providers and the process that guides how you negotiate those terms of access.

Mr Deme—Sure.

Senator LUNDY—Can you describe what that process is like and maybe give an indication of the sorts of time frames you are dealing with and any dispute resolution procedures that you have?

Mr Deme—Negotiating with our carriers is in some ways extremely tough. I would say that in some ways it means putting on a bulletproof vest and being prepared to pick yourself up off the floor, bleeding, on a daily basis. We have found that you are dealing with a couple of different cultures in a carrier. You are dealing with an engineering team who are probably not interested in something if they do not own it and did not build it. I do not think that is carrier-specific; I think it is an engineering-specific culture. You are also dealing with a commercial manager who is probably not interested either if he cannot buy it for half the price you built it for and earn a 300 per cent margin on it. Then, you are dealing with an executive in a carrier that says, ‘How in God’s green earth are we ever going to tell anybody we have done this and make more money from it?’—they look at it from a marketing perspective. When we talk to the carriers we try to deal with those different issues on an individual basis.

In answer to your question, it is extremely difficult but, if we talk at an intent and at a strategic level first and leave the legal and commercial levels for third and second respectively we can get through it. It is certainly a time-consuming process. I would say the time frame is probably about six months to a year to finalise the contract.

Senator LUNDY—Really?

Mr Deme—Absolutely.

Senator LUNDY—How many retail service providers use your network?

Mr Deme—At this stage it is early days. We only got our carrier licence within the past few months. The first cab off the rank, so to speak, is Uecomm. HOA are signed and I expect the contract to be finalised in the next few months. That will probably be the first one. We also have a number of other opportunities through the pull-through sales model that I have been talking about which may come through in the next two to three months. We see our business in the next six months actually having a customer base and selling services. That is the phase we are in at the moment.

Senator LUNDY—Bear with me, because this is a bit of a hypothetical situation, but what if a retail service provider were interested in purchasing some bandwidth from you through your network in one of these regional towns but were also looking to provide a last-mile solution? Is the idea here that if they were prepared to make that investment in the construction of that last-mile infrastructure and lease bandwidth from you it would form part of a holistic solution for a town?

Mr Deme—That is a good question. We would still see that last-mile connection to the customer as a Nexium service.

Senator LUNDY—Even if someone else built it?

Mr Deme—If someone else decided they wanted to invest in and build last-mile solutions in the town, we would happily connect to them. This leads to a good discussion. If you are a new carrier in the market trying to build end-to-end solutions and trying to sell managed voice or managed data services so that the company can effectively outsource them—and I see HiBIS supporting the carrier that can do an end-to-end service—you need extremely deep pockets. Our model is slightly different. If you just tell us the two points in town that you want to connect a 10-meg service to, we are happy to do it; we run a fat pipe between those two points. If you want to run a radio service off that—a wireless service—just tell us where you want us to connect that; we are happy for you to run that as last mile. If you want to build a hybrid fibre coax network around the consumers, we are happy to connect to that point—at the street corner, if you like. We see ourselves as a little bit different to a number of carriers in Australia. We see ourselves as making up the jigsaw puzzle. We will sell services between two POPs, say, from Rocky to Townsville; we will sell services to get all the way from the customer in Rocky to the customer in Townsville. We will sell services to 300 metres from the door; we will sell them from absolutely anywhere to anywhere.

Senator LUNDY—At the moment, to sell from anywhere to anywhere, do you lease bandwidth or pipe from other carriers?

Mr Deme—No, we will build it ourselves.

Senator LUNDY—What is your technology solution for building from the networks that we see in these maps and the fibre that is already installed and then getting that from the pit or post into, say, a home based business in Townsville and then connecting that to a home based business in Cairns?

Mr Deme—We will run fibre all the way from door to door and use Powerlink or another carrier to get between those two. If it is something that we would have to lease from somebody

else we generally will not do it. We would generally tell the carrier we are doing business with that that is something we would have to lease and that they could probably do that themselves. If it is an existing relationship we have with someone—

Senator LUNDY—Someone like Powerlink?

Mr Deme—Yes. If we can make it easier for them, because we have an existing contract, we will do that. But we generally will not try to build a network based on someone else's network. It is really about leveraging Ergon's own asset. But we will absolutely run fibre to the door.

Senator LUNDY—This is very hypothetical, so you do not have to answer if you do not want to: what sorts of preconditions would have to be in place for Ergon or Nexium to consider building a last-mile solution in one of the towns where you already have an established fibre network like on these maps?

Mr Deme—I can easily answer that: a signed contract with our customer. That is it. It is nothing complicated. If we think it is financially viable, based on the up-front, the ongoing, the term, the SLAs et cetera, all I need is a signed contract. Like every other carrier, we have an MSA with a schedule in the back of it. If they are prepared to accept our price, then absolutely yes. The reason for the statement about support is that to get fibre into someone's door can sometimes be extremely expensive. But the economic benefit, depending on who the customer is—think of our large customers in regional Queensland—can be outstanding for Australia and for the state. That is where I see government funding being required.

Senator LUNDY—Do you mean to subsidise that point in the infrastructure build—for example, between your existing networks and people's businesses, homes or whatever?

Mr Deme—Yes, absolutely. If we really want to provide value for Australia, from an economic perspective I think we need to provide it to large corporations that employ people. An unemployed person sitting at home trying to access DSL is not an outstanding story for the economy. But I think a large corporation that has high-speed access to the Net, to their WAN and to the rest of the world can employ someone—who can probably then afford a higher priced DSL service. But having unemployed people accessing DSL, and decreasing the cost of DSL so that they can access it, I think is not the way to go. I think we need to provide high-capacity services to education. That is a great strategy. I believe that Powerlink and Ergon are playing some role in that. Certainly, there is health. We are in discussions with Health in Queensland to see what role we can play in that. Because Ergon effectively has large industry as its customer base, I see us playing a role in providing high-speed capacity to large industry. We are talking about a 100-meg service and above. I think those industries will then become more effective on a world scale than they are today. I think they employ people in regional Queensland. I do not think we can put a high-speed connection in the middle of Brisbane and expect every business to benefit from it. I think we need to put them in regional Queensland.

Senator LUNDY—One final question: do Nexium have involvement with wireless solutions as an example of how you could build that last-mile network yourselves?

Mr Deme—Absolutely. At this stage we are exploring opportunities for wireless pilots. I am not sure that Nexium is ready to run its own wireless pilot. I think CCIF was a fairly public

process, and we explored the possibility of running a wireless service in Bundaberg with Comindico. That may still come about; it is possible. From my perspective, I think we should concentrate on our bread and butter for a couple of years. Comindico may lead to that opportunity through the next CCIF phase. But in answer to your question: absolutely. With higher education in Townsville, there are opportunities to do wireless pilots to provide access to students off campus. As you know, in higher education not every student is on campus.

Senator LUNDY—I was going to ask you about that. The JCU situation has improved recently with the extension of the national high-speed network.

Mr Deme—Absolutely.

Senator LUNDY—But the students still have a difficulty in accessing the network at the university when they are off campus.

Mr Deme—Yes. That is the next problem to be solved for higher education. In Toowoomba we are going to USQ tomorrow to talk about off-campus access. What I say to you, in summary, is that I think we are playing a key role in the development of high-speed access in regional Queensland. I think we need support. I would absolutely ask you for that support directly; there is no question of that. We are effectively true believers in exactly what we are doing. We have worked very hard over the last 2½ years. We empathise with other companies, including Telstra, which have to build that last-mile access. There is no question that that is an extremely difficult thing to do. It is extremely expensive and extremely frustrating. I ask for your support directly in providing much greater value to the community than what we can do on our own.

Senator TCHEN—I have some questions for you, Mr Deme, which are probably a little bit out of left field. We are looking at competition in broadband services and particularly at how costs can be lowered through competition. It seems to me, from what you have said—and from what I understand of power companies—that a power company like Ergon is potentially already an existing last-mile provider. You have a network which goes to every household. The question is whether or not you utilise it. In your case you are marketing your spare capacity from your own telecommunications network, which is attached to your power company. If you need one megabyte for yourself, the cost of installation, the actual cost of providing a 100-megabyte capacity, is relatively low. Potentially you can go into every household and provide a service of any definition of broadband you like. I have two contrasting questions. Firstly, given that you have come from a different direction, when you do go into a market like this, do you enjoy an unfair competitive advantage compared to telcos? Your network is already there. It is a longstanding community asset and you are using that with a slight twist which allows you to go into a completely different market. So are you enjoying an unfair advantage?

Mr Deme—In answering that question, the first thing I would say is that, if it is an unfair advantage—and I am not sure that it is—it is the greatest thing Australia has ever seen. That is how I would answer that question—if it is an unfair competitive advantage. And God help us if we do not take advantage of it. The second answer to that question is in two parts: it is not what I am seeing. I do not see that I have an unfair advantage at the moment in my pricing to carriers.

From a purely commercial viewpoint, we have already rolled out fibre for our own use, but in Queensland there is a thing called the QCA. The QCA says, 'If you are not using that fibre for

power, then we are not going to provide you a return on the asset, so you had better get your return on the asset from somewhere else.’ If anything, what I probably have on that core fibre loop is an incremental cost base, which a carrier may not have for their very first customer, but which for their second customer they do. It is probably an incremental cost base on day one for a portion of that fibre, yes. After that, for any fibre that I have to build from that core fibre loop, I have no advantage over anybody else. I would say in some cases that Ergon is probably expecting a higher return from me using their asset than what I could get off the market.

Senator TCHEN—That is looking at the actual return on the fibre itself?

Mr Deme—Absolutely—the return on asset.

Senator TCHEN—My point was the fact that you had the pole in the street which no-one is going to challenge you about because it is already there. That is actually a great advantage, isn’t it?

Mr Deme—We just lost an opportunity in Rockhampton based on our price. I would say there is a reality check and the reality check is that, no, we did not win that opportunity.

Senator TCHEN—Was that because of your price?

Mr Deme—Our price was too dear.

Senator TCHEN—In that case, let me reverse the situation. You have an existing physical facility there which allows you go into everybody’s households and, because of your particular pricing—which is an accounting tool, and your executives decide on that—you do not utilise it. Whereas if you do utilise it you potentially have quite an impact on the broadband competition. By withholding that, are you unfairly affecting the broadband market?

Mr Deme—I like your questions. They are things that we have thought about and have effectively got our project off the ground. We had a large number of opportunities come to us for carriers to run fibre on our asset, and we decided that was probably hard to manage. It is probably impossible to build a power pole system to run a number of powerlines, and its strength is to support those powerlines, and then to have five, six or seven fibre runs down that street. I think that is pretty ugly. We have seen a lot of the town councils try and prevent that. What Ergon said was: ‘We are running fibre for ourselves anyway, and we only have to run one. We can probably provide capacity on it and sell off that capacity.’ I think your question is fair, but I think it led to us where we are today.

Senator TCHEN—It is a hypothetical question; I am taking extreme positions.

Mr Deme—I think it is a fair question and it is what led us to the point where we said, ‘If we are going to make capacity available, we will make capacity available on our existing fibre. Save the circumstance where you have two companies running fibre down the same street, on opposite sides of the street, praying that there is ducting on one side and power poles on the other, I think effectively we are building one network for Ergon and, to answer your question, we have probably taken the smartest way out.

Senator TCHEN—I am sure you have. Something more mundane now: is your wholesale price subject to ACCC scrutiny as well, as it is for Telstra?

Mr Deme—In what respect? We are not supplying declared services.

Senator TCHEN—Potentially you are able to undercut Telstra or any other supplier.

Mr Deme—Any carrier is able to undercut Telstra if they have the right opportunity. I am not sure what you mean.

Senator TCHEN—For example, suppose the Ergon board took the view: ‘We have the physical network in the street already. No-one is going to object to us. We can hang the optical fibre off it.’ Presumably you price it at zero. Suppose the board made a decision to price it at half a million dollars and they said: ‘We have already invested that, so if we utilise that investment we have a different type of return structure. Therefore, we can undercut the existing telcos.’

Mr Deme—I think there are a couple of things I need to make a little clearer. The first one is that anything we have installed for our own use attracts a regulated return. The minute we peel out fibres for a commercial use, they now no longer attract a regulated return. The corporation still wants a return on those. It is QCA-ACCC independent. We actually do assign a cost basis to the commercial network utilising that existing capacity. So it is not a zero cost base.

Senator TCHEN—Is this a Queensland government regulation?

Mr Deme—QCA, yes.

Senator TCHEN—For privatisation?

Mr Deme—Yes.

Senator TCHEN—Okay.

Mr Deme—The second thing is that we are not competing with carriers. I need to make that extremely clear. We are supplying services to the carriers. We are not trying to undercut Telstra; we are trying to sell to Telstra. We are trying to make it effective from both the financial viewpoint and an operational viewpoint for Telstra to use our services. I would love for Telstra to use our services. To do that, we provide a price for the use of that core fibre loop. We installed the fibre loop for our own needs, and we have a price for that. The price is on, say, a per town basis, because they are slightly different, but it is a price that we would supply to any carrier, fairly and equally. It is slightly different if you understand the model. We are not trying to undercut carriers. We are just trying to supply services to carriers. We supply the same price to every carrier that comes to us. When we have to build from our core fibre loop to a customer, there is a build cost which is my business’s cost. That cost does not change, whether the customer is Telstra or Ucomm. That cost is the build cost.

Senator TCHEN—But that is governed by self-regulation rather than—

Mr Deme—I think the Trade Practices Act probably influences my decision making as well.

Senator TCHEN—If there is any breakdown in your network, are you under any sort of obligation like Telstra is in terms of guaranteeing services through their network?

Mr Deme—From telecommunications?

Senator TCHEN—Yes.

Mr Deme—If I go through the process of a breakdown, I would say that, if a hospital loses power it is probably important for the hospital to have power.

Senator TCHEN—No, I do not mean the power.

Mr Deme—I understand. I am taking you through the process. I am not sure of where you are leading to with your question, so if I talk about the process we can probably discover some more detail. If the hospital lost power, we would reconnect power. If there is a substation that has lost telecommunications and it is because of a fibre break, we will restore telecommunications for our own needs. That would fix the same fibres that commercially we would have to repair. I suggest that the level of down time or SLAs that we are prepared to accept for ourselves are much tighter and more stringent than any carrier would ever accept for itself or its customers. That is part of the answer but does not answer your question. If a storm came through the area, we would go to the ACA and tell them that we have had a major catastrophe so any SLAs we have with our customers are now wiped for a day or two.

Senator TCHEN—What is it called now? A massive disruption?

CHAIR—A massive service disruption.

Mr Deme—But, because I do not run a declared service, I am not sure what Telstra's issues are with declared services, so I cannot speak on behalf of Telstra.

CHAIR—Thank you very much for that. It was very interesting. It is always good to see a bit of enthusiasm in our committee witnesses. Thank you for attending today, and good luck with trying to flog the product.

[11.43 a.m.]

HILL, Mr Lloyd Michael, Director of Hospital, John Flynn Hospital; John Flynn Medical Centre Tenants Association; South Coast Radiology; and East Coast Cancer Council

CHAIR—I welcome the witness. Thanks for your time this morning. It is much appreciated. We have been given copies of materials that you have provided to the secretariat about the hospital, and that has helped us much in our preparation. I invite you to make an opening statement before we move to questions.

Mr Hill—I have a bit of a story to tell from an end user perspective about our journey into broadband. I will give you a brief overview of that and then invite questions and you can direct me to where you would like to find out more information.

John Flynn is a private hospital on the southern end of the Gold Coast. We have about 300 beds. The campus has a number of business on site as well as the hospital. We have a medical centre, which houses most of our specialists. There are about 70 practicing from there from 40 suites. We have an onsite radiotherapy centre, a pharmacy, a radiology practice and two pathology practices. So there are about 50 independent businesses operating in the one campus on site. I guess when I speak this morning I am speaking on behalf of all of us, because we are all trying to get broadband access to the hospital.

My involvement in this started about mid last year, when I was attending the tenants association of the medical centre. They asked me, as landlord to the building, whether there was anything that I could do to assist them in getting broadband access to the building. A couple of them as individual tenants had approached Telstra and had found out that our area of the Gold Coast did not have broadband access. As individual people they were not having any success in getting access to their practices and they thought that maybe the hospital as a group or the campus as a group could make an approach to Telstra and as such might be able to sway them into providing access to the area. I thought that was a reasonable request, and I picked up the phone book and rang Telstra and put the proposition to them. At that point we came up with a bit of a blank.

It was about at that stage—I am also part of the Gold Coast Health and Medical Industry Association—that I went to a workshop with Sarah, who I think has already spoken to you in the past couple of days, and we talked about the possibilities broadband offered the medical industry on the Gold Coast as a whole. I happened to have a bit of a whinge to her and said, ‘For us, it is nil because we are having a lot of trouble getting it to the hospital.’ Sarah gave me two bits of interesting information. Firstly, the Gold Coast Airport was in a similar situation to us. We are actually adjacent to them, and they are a fairly large campus as well. They have a retail centre on site, so there are quite a number of businesses down there. Sarah said they were also in the process of trying to get broadband and were not currently serviced. The other piece of information she gave was that council may be able to help and that it was not just Telstra that was providing services. My level of Internet knowledge is very low. She alerted me to the fact that there were a number of providers within the Gold Coast city area and that council had helped industry groups in the past in accessing those telcos and getting the service.

So in conjunction with the airport we firstly had council help us do a survey of all the businesses down that end of the coast to ascertain who out of those 100 businesses over the two campuses would definitely take up the service. This was so that if some of these other telcos were interested in providing access we would be able to give them some quantifiable data about what the interest was in the area. We did that and council distributed that information to the providers on the coast.

We had nine of them respond back jointly to the hospital and the airport saying that they felt that they could provide a service to us and that they would be interested in talking with us further. We convened a meeting. The airport and hospital reps were there and we invited those nine in to give presentations to us. We then narrowed it down to three providers, which we are currently talking to. That is about where we are in our journey. We are in final negotiations with three providers.

I should say at this point that at that first meeting Telstra was one of the nine to present. They were able to give a solution to the airport but not to the hospital, and so it was decided at that stage that there was no point the two of us trying to jointly negotiate further, so we split. So the hospital is now trying to negotiate on its own.

Out of those nine respondents, eight of the proposals were—obviously because there is no band, if that is the right terminology, coming into the area—for radiocommunications. They were talking about putting a network of radio towers between Southport and Tugun. I think there were about three of them. Many of the proposals that were put forward, while they could give us a solution, had incredibly high set-up costs for the hospital. I guess that is where I am at now: going back to those tenants and saying, ‘We now have proposals that can meet our needs but the initial set-up costs that we are being quoted are between \$20,000 and \$70,000, depending on how many of these repeater stations go down the coast.’ As I said, we are in the final negotiations with three of them. We are hoping that in the first half of this year we will have some access to the building, but getting that has been fairly protracted and quite difficult and the costs far exceed what the initial expectations were when I started this project.

CHAIR—What impact from a demand aggregation point of view did it have when the airport pulled out of the discussions? I imagine that would have been a fairly large business node in your area.

Mr Hill—I guess that has put a lot of the infrastructure costs back on just the hospital. In looking at going down the track of having the radio towers along the coast, initially we thought we could share some of that cost with the airport. Now, obviously, that has come straight back to the hospital, so it is a set-up cost that we are looking at ourselves.

CHAIR—How far is the hospital located from the current fibre-optic network on the southern part of the coast?

Mr Hill—I do not know that I can answer that.

CHAIR—That’s okay.

Mr Hill—I guess the shock for me was that Tugun is a fairly established area of the hospital, and the hospital is no more than two kilometres back from the main Gold Coast Highway.

CHAIR—That is what I thought.

Mr Hill—Part of the problem—and I can understand Telstra's point of view on this—is that when the hospital was built in the eighties there was a grand plan that the whole area would become a medical precinct. There were going to be condos there for people living in the area and a Sanctuary Cove type of development. None of that happened, but at the time that was what was on the table so the decision was made to have an exchange put into the base of the hospital. The Tugun exchange, whilst it is onsite, only services the hospital, the medical centre and about 50 houses that are adjacent to the hospital. Telstra made it fairly clear to us from the beginning that their decision to put service to the hospital or not would be a business case type of decision and they would need to know what the potential usage was. Because that exchange that we have on site is so small and is probably never going to develop much more than is on it now, I guess it just was not a viable proposition for them. I think the next exchange is at—can I phone a friend?—Currumbin, which is probably five kilometres away. The airport, which is about two kilometres away, is certainly being serviced with fibre cable, but they are on a different exchange—they are with Coolangatta-Tweed.

CHAIR—Were you looking at a broadband solution or an ADSL solution? Or did you want something beyond ADSL?

Mr Hill—Initially we were looking at an ADSL solution, yes.

CHAIR—What advice do you have for the committee from that experience of the last year or so? What would be the message that you would like the committee to take away from your experience?

Mr Hill—I guess I can just draw some observations. There would be a lot of people in my position who would think with the level of advertising that goes on with broadband at the moment that it is readily accessible to just about every Australian. I think there are ads on the TV at the moment that show the ocean coming to the outback. It is just fairly incredible to me, living here on the Gold Coast, that we do not have access. I am going to speak more on behalf of the Gold Coast Health and Medical Industry Association. On the coast our inability to get broadband to the area—it is not just Tugun; I understand that until now Robina has been another black spot—is going to stop us developing some of the initiatives that we would like to look at, and I will give you a few ideas of two specific areas. You would probably be aware that communication between hospitals and GPs is a big issue at the moment. People go hospital and get sent back to their GP for ongoing care. Very often the GP does not even know they have been in hospital. They have been given 20 different pills to take and the GP does not know about it. Information exchange between the various health care providers is a big issue at the moment and something that the coast is very keen to progress. That is going to be thwarted by our inability to link all the medical businesses on the coast.

Secondly, there are some pretty good opportunities at the moment. Bond University and Griffith University have proposals for medical schools. On the coast, as it is, there is no one hospital that is going to be able to provide medical students with enough exposure to the

different clinical specialities. They might go to John Flynn for cardiac, because that is one of our specialities, and they might go to Allamanda for neurosurgery, so these students are going to be scattered all over the coast. Bond University and Griffith University are very keen to look at online, interactive sessions, where we can link all the hospitals. Unless some of us can find a way to get onto broadband and do it at a reasonable price, there are going to be barriers to us all achieving some of the things that we would like to do—bigger picture stuff for the coast.

After this experience I would have to say that there is competition out there. I was quite shocked: I thought Telstra was the only way—and Sarah set me straight on that—but obviously there is competition out there. From advertising, the expectation of medical centre tenants—and you have to realise that many of them are small businesses, with just a single doctor employing a couple of staff and paying the rent—is that broadband connectivity is going to cost them 100 bucks or 200 bucks a month at most. I now have to go back and say, ‘I’ve got these great proposals, guys, but it will cost \$70,000 for us all to hook up. Can you give me your \$20,000 now?’ I just do not know that they are going to go for it. So, whilst there is competition, I am not sure that it has had an impact on price. Certainly at this stage I am not keen to spend that sort of money on the site.

Senator LUNDY—There is the issue of Telstra’s stated commercial necessity that there has to be a commercial case. You mentioned their construction of exchanges. I do not know how much information you have about what infrastructure Telstra have in your region, but where is the nearest exchange? Is it the Tugun exchange that you mentioned?

Mr Hill—The closest one is Tugun, which is set on site. The next one is Currumbin, and my understanding is that it is ADSL enabled.

Senator LUNDY—Can you go through the explanation as to why the Tugun exchange is not able to provide a cost effective opportunity for you, from what Telstra have told you?

Mr Hill—You would probably have to ask Telstra about that. They were one of the nine that came on the day. The explanation they gave us was that, when they are deciding who is going to get it next—and obviously a number of exchanges would have requests to upgrade—they would look at the potential uptake. Given that there are probably only 100 people in the area and given the development in the area, the Tugun exchange is probably going to stay that way. On a priority basis, we are almost at the bottom of the pile. In some ways I do not quite understand that myself. I went through who was on site, for a reason. The radiology provider and the radiation oncology provider are state based businesses, with networks all over the state. My understanding is that they are going to be fairly big users. Some of them have their practices linked up now and Tugun is one of the few that are not online. The providers are talking about putting a two-meg feed into the hospital. Those two alone would take one meg of that. So, even though they are two businesses, their usage is probably the equivalent of 20 or 30 households, or something like that.

Senator LUNDY—Sure, but that still goes back to fulfilling Telstra’s position, which is that it has to meet whatever their criterion is for being commercially viable.

Mr Hill—Yes, the business case needs to stack up. What I do not understand—and I am not trying to Telstra bash—

Senator LUNDY—It is all right, I do it all the time.

Mr Hill—is that eight of those nine providers, as I said, came in with radio link type proposals, and the ninth one said, ‘No, we’re going to pull a cable through and we’re going to do it through the Telstra network.’ That kind of begs the question—and I cannot answer this, so please do not ask me—if they can do it, why can’t Telstra? So it might be a case of ‘why won’t’ rather than ‘why can’t’.

Senator LUNDY—That is certainly something that we can pursue. I think the question that your evidence raises is the determination, if you like, by Telstra to shift from having an upgrade program to having made a decision not so long ago to stop the upgrade program at a finite point and then establish effectively new criteria for exchange upgrades. I think there were close to 1,000 out of the 5,000 or so. Obviously Telstra have targeted all the ones that they think they can make an up-front investment in and then recruit later. But this is one that has fallen outside of that group. I am just thinking out loud here on the basis of perhaps trying another avenue with Telstra and arguing for the potential viability of that exchange itself. It might be worthwhile, even at this point.

Mr Hill—I am coming to the realisation that somewhere along the line I am going to have to write a cheque for some amount of money for infrastructure. Is there a possibility of maybe sharing that with Telstra? I do not know what the right answer to this is, but certainly throughout the presentations a lot of people put question marks over the radio link technology, to the point where if we had a storm—

Senator LUNDY—You should not be in a position of contemplating helping Telstra fund an exchange upgrade.

Mr Hill—I look at it more as me helping to get my campus on line. But I would agree with that statement. I should not have to, but if that is something I need to look at, perhaps—

Senator LUNDY—I think Senator Cherry probably covered the rest of my questions.

CHAIR—I think we will have to get some questions on notice to Telstra about it. I think it is an interesting case study.

Senator TCHEN—How far is John Flynn Hospital from the Gold Coast airport? On this fairly rudimentary tourist map it looks like it is about three kilometres away.

Mr Hill—It would not be any more than three kilometres.

Senator TCHEN—Can you throw some light on why the airport can be connected through broadband but the hospital cannot?

Mr Hill—The answer from Telstra was that the airport is on the Tweed- Coolangatta exchange and the hospital is on Tugan and obviously that the Coolangatta exchange is enabled.

Senator TCHEN—Telstra, as one of the nine, was also radio linked?

Mr Hill—No, sorry, they were not. Telstra actually came to that meeting saying ‘We cannot—

Senator TCHEN—They were the tenth one?

Mr Hill—Yes. To be honest, in some ways that was helpful. Most of the tenants in the building had the same expectation that I did, that Telstra would come to the table—

CHAIR—Switch the switch.

Mr Hill—Yes. One of the things we did not want to do was say, ‘Yes, we will sign up for \$70,000 worth of infrastructure,’ and then two years down the track have Telstra say, ‘We are coming to town now. Come and we will join.’ We wanted to get a fairly clear indication: was it ever going to happen, or was it never going to happen? At least Telstra came to that meeting and set everyone straight and said, ‘Sorry guys, you are on the bottom of the pile; it is not going to happen.’ At least we are now off doing our own thing and I guess we are not wasting any further time.

Senator TCHEN—I am afraid all my serious questions have to be put to Telstra rather than you.

Senator LUNDY—Just going back to the point you made at which Telstra said that they were able to work with the airport but not you—your understanding is that that was on the basis that the Tugan exchange was just off the list as far as an upgrade went?

Mr Hill—That is my understanding; correct.

Senator LUNDY—Did you have any discussions with any other carriers about their willingness or the viability thereof of them placing their own DSLAMs in that exchange?

Mr Hill—One of the three that we are negotiating with now is contemplating that, yes.

Senator LUNDY—Is the exchange able to host someone else’s DSLAMs, or does Telstra have to do something to it before that happens?

Mr Hill—Sorry, I do not know.

Senator LUNDY—I do not know either. I do not think they do. I think the ADSL enabling is really a question of whether or not the DSLAM technology is available in the exchange. So it could be possible that another carrier could make that investment decision.

Mr Hill—I think that is the case, yes.

CHAIR—Thank you very much. That was a very sad story. If you do get an answer—

Mr Hill—No, we are going to find a solution in this half of this year; otherwise, I will have my tenants move out.

CHAIR—Please inform the committee if you do come to a solution so that, if we report this as a case study, we have the complete story. That would be much appreciated.

Mr Hill—I am sure we will.

Senator LUNDY—And we should as a committee place some questions on notice to Telstra to hear their side of the story and their experience of this particular example.

Mr Hill—Yes, that would be great. Thank you.

CHAIR—Thank you very much. That concludes today's proceedings. We move to Ballarat for a hearing on Thursday. I want to thank all of our witnesses over the past two days for their informative and challenging presentations. I particularly want to thank the Gold Coast City Council—I can see Sarah Cobb is still here—for their magnificent hosting of this event. It really has been above and beyond the usual hospitality we receive. Thank you very much to Sarah and the council for hosting us today. I also want to thank the officers from Hansard for their ever-efficient service. With that, I declare this hearing closed.

Committee adjourned at 12.05 p.m.