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The Lee era ends at SingTel, what now for the regional telco?

Optus pulls out of Telstra resale

ACCC cuts LSS to $2.50

COMMUNICATIONS DAY

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Speculation on Optus Broadband Connect deal as Telstra reveals FTTN VDSL plans

Optus is believed to be close to securing the lion's share of Broadband Connect funding, according to several industry sources. The speculation has also been accompanied by the observation that such a decision effectively circumvents an envisaged short list process first flagged by Communications Minister Helen Coonan.

Neither Optus nor the minister's office would comment on the speculation, with a ministerial spokesperson stating only that the Broadband Connect award was due soon. Coonan's next scheduled public appearance is at the CommsDay summit tomorrow in Sydney.

The Optus rumour emerged out of Canberra last week and has swept through senior ranks of the industry. Sources connected with rival bids claim that the decision to award Optus and its Opel joint venture with Futuris-backed Elders forms part of an overall sweetener deal between the minister and Telstra on the carrier's proposed FTTN network.

With pressure on the minister to thwart Labor's $4.7 billion FTTN plan, talks between Telstra and the government are believed to have escalated in recent days. Several industry sources suggest that the Optus Broadband Connect bid may have won favour with the minister as part of a commitment to Telstra that G9's requests for regulatory approval would be denied.

Competing Broadband Connect bidders claim that no parties other than Optus have been invited to discuss their proposals with DCITA despite an anticipated short list process. "The discussions (between Optus and DCITA) have been extensive and exclusive, no one else appears to be part of them. Things have moved far more quickly than anyone had ever anticipated" one source claimed.

Executives contacted by Communications Day that were across the speculation claimed that the rumour had inspired confusion and concern, particularly within the G9 consortium itself. Optus would not comment on the status of its bid.

"The deal is done with Optus, the message is clear," one source stated. "The methodology here is appalling, paying Optus $600 million out of taxpayer dollars to drop the G9 proposal."

WIRELESS NET: The Optus/Elders bid was revealed in December last year. It calls for the entire $600m subsidy in return for ADSL2+ in major regional centres and wireless broadband services covering several hundred towns. The plan also includes regional backhaul builds with the new offerings to be marketed and supported through Elders' extensive rural retail presence.

Also, rising speculation that the impasse between the government and Telstra on FTTN has been broken was further qualified by talk from Telstra that closure on an FTTN deal was imminent.

The confluence of events coincided with a landmark meeting held on Wednesday orchestrated by the Communications Alliance.

This meeting was characterised as a FTTN face off between Telstra and Optus/ G9 in a closed industry forum to discuss technical and access issues. Telstra network and technology head Dan Burns presented the group of sixty telecommunications representatives with a detailed view of Telstra's FTTN plans—specifically plans to use VDSL. Alcatel's VP access solutions John Turner, AAPT's David Havyatt representing the G9 and Commander Communications John Green also presented with Telstra's Phil Burgess and Kate Mackenzie also in attendance.

Communications Alliance CEO Anne Hurley said the meeting reached a very broad consensus at a very high level to facilitate further collaboration on a range of issues that were raised. Hurley said industry members would assist in the development of technical integration and wholesale access as well as applicable commercial principles.

Natalie Apostolou

Optus to quit Telstra resale in on-net markets

Telstra is about to lose its biggest resale customer, with Optus setting a three month horizon to stop selling Telstra broadband and telephony products so that it can maximise the benefits of its expanding unbundled local loop network.

From June 25 Optus says that it will cease selling Telstra Local Access Resale and Resale DSL consumer products in all areas where its own network is operational. It will continue to provide the services in areas not yet covered by its network and will transition them to its own services as they come online. Optus states that it had 204 exchanges up and running at the end of 2006 and that engineering teams are on track to rollout an additional 236 by year-end.

According to an Optus spokesperson, "Local Access Resale and Resale DSL are low margin businesses with almost all of the revenue being paid to Telstra." She said that its ULL network was more economical to run than the resale offerings and also allowed it more control over its brand.

According to Telstra, Optus' wholesale agreement has been up for renewal for a year. A spokesman confirmed that it had sent Optus a revised proposal on Thursday and was surprised by the response. A Morgan Stanley report released when Optus began its rollout in 2005 suggested that once the ULL market gets into full swing, the incumbent could lose up to 60% of its wholesale broadband customers, a scenario that would result in the loss of 22% of its data revenues, and 19% of PSTN revenues.

According to Telstra's spokesman on Friday however, "the fact that they gave Telstra a notice on late Friday tends to suggest that it's about applying more pressure on the government for Broadband Connect funding. Hopefully the government will see this for what it is."

For now, Optus is restricting the resale cut-back to the consumer market, a spokesperson declining to detail why it won't be extended to SME and wholesale customers. "For commercial reasons this strategy is being applied to the consumer division only," she said. The restriction comes despite publicity as long ago as last September when Optus talked up the imminent launch of wholesale ADSL2+ services over the network. At the time it said it was in "business readiness testing" with several customers.

Optus claims to be already well advanced migrating consumer resale customers to its own network and expects the weight of users to increase with the removal of resale offerings. The company had about 62,000 customers on the network at December 31. At the same time it counted a total of 728,000 broadband customers. According to the spokesperson, "those customers within Optus' ULL network footprint will be transitioned as the network is ready for service.

Tim Marshall

… as ACCC cuts LSS to $2.50, Telstra forced to rebate

Meanwhile, the Australian Competition and Consumer Commission has handed Telstra access seekers an early Easter present with the surprise decision to further cut line sharing charges to just $2.50 a month—and also has retrospectively applied the cuts to the date when access seekers first disputed the old $9 charge.

The ACCC had set $3.20 as its revised charge just months ago.

iiNet revealed the decision in a filing with the Australian Stock Exchange late Friday. As one of the largest commercial users of LSS, iiNet filed an access dispute against Telstra in late 2005 over its charges. The ACCC set the price at $3.20 in an interim determination but has cut this to $2.50 in its draft final determination.

iiNet told the ASX that the price reductions would save the company $800,000 per month. Adding insult to Telstra's injury, iiNet will also be entitled to a rebate dating back to November 2005 covering the lower charge, netting iiNet some $8.8m in returned monthly charges and $1.8m in returned connection fees.

The decision is likely to flow through to other access seekers in dispute with Telstra over LSS prices. These include Primus, Agile, Amcom and Adam Internet.

There will be a 28 day consultation period with affected parties.

Primus revenues down 10% in 2006

The revenues of Primus Australia fell 10% in 2006, with the company also taking massive asset write downs leading to a US$69m loss in its Asia Pacific division.

According to documents filed with the US Securities & Exchange Commission last week, Primus Australian revenues fell $44.8m to A$406.45m in 2006 compared to 2005, a fall of 10%. When converted to US dollars, the scale of the fall was slightly higher at 11%.

Primus only reports revenues for Australia, with other indicators coming under an Asia Pacific measure—effectively a proxy for Australia as its other regional operations contribute less than 3% of Asia sales.

According to its filings, Asia Pacific recorded a US$69m loss in 2006, although this appears to have been directly caused by massive asset writedowns across the company.

The filing said "The (Asia Pacific revenue) decrease is primarily attributable to a US$27.6 million decrease in residential voice services, a $20.7 million decrease in dial-up Internet services, a $3.1 million decrease in carrier services, a $2.5 million decrease in business voice services, and a $2.5 million decrease in prepaid and other services, partially offset by a $13.1 million increase in Australia DSL services. The weakening of the AUD against the USD accounted for a $4.7 million decrease to revenue".

It continued: "Asia-Pacific cost of revenue decreased US$25.9 million primarily due to a decrease of $18.9 million in residential voice services, a decrease of $12.5 million of dial-up Internet services, a decrease of $3.9 million in business services and a decrease of $2.8 million in carrier services. These decreases were partially offset by an increase of $10.8 million for new DSL services including customer migration fees and an increase of $2.0 million in VOIP and other services. Weakening of the AUD against the USD accounted for a $3.1 million decrease to cost of revenue."

Additionally, Asia-Pacific selling, general and administrative expense decreased US$15.5 million to $79.7 million. This was prompted by a decrease of $9.3 million in salaries and benefits expense which reflects $0.3 million of severance expense in 2006, a decrease of $4.4 million in advertising and a decrease of $1.8 million in general and administrative expenses.

Capex in AsiaPacific nearly halved to US$11m in 2006 from $21m the previous year.

As reported in CommsDay last month, Primus' long-standing MD Greg Wilson resigned from the company after the results were compiled and was replaced by Ravi Bhatia, his predecessor in the position who most recently was running Primus' US unit. The results only became public last week after a two week delay to their filing.

Vodafone & Optus trumpet mobile data advances

3 Mobile has spurred a quick response from rivals after launching its new mobile internet strategy and pricing arrangements last week, Vodafone and Optus both rushing out announcements to keep themselves in the mix.

3 has promised to shake up the way carriers charge customers for mobile data, putting to market a new series of big-name online partnerships and plans borrowing from the structure normally applied to fixed line broadband products. It also announced the completion of its HSDPA upgrade, making download speeds of up to 1.5Mbps available across the whole of its metro-based networks.

Not to be outdone, Optus said on Friday that its HSDPA upgrade is "well underway" and that commercial service will be available in Sydney and Melbourne by the end of May. The initial project, which will see HSDPA coverage across 55% of the national population, is due for completion by year-end. A new three-year project to extend that to 96% of the population, will begin in June. According to Optus Products & Delivery acting Director Henry Calvert said, "upgrading our base stations with HSDPA technology is the next stage in Optus providing products and services that enhance the way our customers' conduct their daily lives and business."

But most talk about 3's announcements last week centred on its new data pricing. The company is offering three plans, providing 500MB of data for $20 per month, 1GB for $30 and 2GB for $40. Hutchison Telecom Australia CEO Nigel Dews said last week, "when you look at traditional telcos you'll be looking at least at double that amount for half the amount of data."

Vodafone responded on Friday with a new set of data plans for its USB modem and laptop card products, including a 2GB monthly download allowance priced at $79.95 for on-contract customers. It also offers 1GB for $59.95, 300MB for $39.95 and 100MB for $19.95. According to Vodafone Business Markets General Manager Edward Goff, “keeping your business and staff connected to critical data while on the move has never been more affordable. We’re offering a new 2GB data plan to ensure our heavy users continue to receive exceptional value for money.”

Telstra has yet to make any response to 3’s plans. It currently offers a USB or laptop data connection card with a 1GB allowance for $114.95.

Tim Marshall

PowerTel completes long-haul backbone upgrade

PowerTel is set to upgrade its Sydney metro network following the recent completion of works with Nortel to boost and strengthen its east coast backbone.

According to a statement on Friday, the two companies are set to deploy Nortel’s Optical Metro 5200 multi-service in the Sydney CBD to provide a high capacity metro optical core for a range of business critical services. The deployment follows the deployment of Nortel’s Optical Multi-Service Edge 6500 platform on PowerTel’s long-haul network. The 400Gbps upgrade was apparently completed ahead of schedule.

According to PowerTel Managing Director Paul Broad, “as a rapidly growing service provider we needed to simplify and improve our network infrastructure to meet the demands of high-speed, high-bandwidth services… The new network sets us apart from other carriers with its high levels of speed and capacity.”

Nortel Australia & New Zealand President Mark Stevens said the upgrade was based on Nortel’s so-called Common Photonic Layer, which adds new software monitoring and self-optimisation capabilities. He said, “Nortel implemented PowerTel’s first optical long-haul network in 1998 and this new project further strengthens our strategic relationship. Nortel’s CPL solution is fundamental to ensuring PowerTel has a truly compelling offer to deliver resilient services to its customers,” says Stevens.

Tim Marshall

Magna adds DVD depth to Destra

Destra claims that the acquisition of a film and DVD distributor Magna Pacific puts it on the path to becoming Australia’s largest non-studio film, video and music content company.

The firm, which recently cashed up with the $19 million sale of its internet hosting division, has raised a scheme of arrangement offering Magna shareholders $0.38 per share cash and a single Destra share. Magna recently received an offer from Lions Gate Entertainment valuing the company at $0.32 per share.

Magna claims to be the largest independent DVD distributor in Australia and New Zealand. It has a catalogue of over 1,000 titles and recently branched in theatrical distribution.

Destra CEO Domenic Carosa said the company would sit well with Destra’s wider digital entertainment strategy. He said that Magna product would be distributed through Destra’s existing online and subscription TV network. Magna is also expected to tap into Destra’s technology pool to establish new online distribution channels of its own.

According to a Destra statement, “Destra will grow with this transaction to become the largest non-studio film, video and music content company in Australia and New Zealand.”

Tim Marshall

TNZ to receive UBA guidance

The New Zealand Commerce Commission is expected today to provide guid-

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ance on around the non-price terms of a commercial unbundled broadband product. The news effectively provides a green light for a Naked DSL product.

Matt Freeman

Number portability now available in New Zealand

New Zealand phone companies were last week putting the finishing touches on systems supporting yesterday's introduction of number portability, both for mobile and fixed services.

Telecom New Zealand was quietly confident, if not cautious about the introduction last night at 6pm. TNZ Consumer Marketing Head Kevin Bowler said the company had invested significant time and money into making sure the launch went off without too much of a bang.

"If it was just voice it would have been a lot easier ... but we have to provide our customers with all available services," Bowler said. He said that recent tests with TelstraClear and Vodafone had provided a positive indicator for success.

Bowler suggested that customer take-up may not follow international trends. "In most markets around the world there has been an initial demand," he said but in New Zealand's case it is hard to know.

Looking to add spark to the launch, TNZ will be offering a new push SMS service for customers taking advantage of on-network calling plans. Customers will be able to identify who is on or off the network by texting the number they wish to identify to a specified service number. TNZ will then send a text identifying if the number is on or off the network. The service will be free. Bowler says he expects the service to become more popular as more customers port.

TelstraClear CEO Allan Freeth said the company views number portability as a positive move for consumers. "Number portability will stimulate competition in the market and ultimately give consumers more choice," he said. "We know that, for many people, their phone number is part of their identity and they shouldn't have to give it up to choose their phone supplier. This is another step in creating a truly competitive market where choosing your provider comes down to great offers and service - not historical grounds."

Asked why there has been very little coverage or advertising about the service, Bowler simply says TNZ did not want to advertise before number portability took place. "We're confident, but cautious," says Bowler. "International experience shows us that some carriers went mad with advertising the service and in some cases this undermined portability."

Fixed number portability was also launched last night although it won't be available in some locations. "We are unable to offer portability on some exchanges because they have older technology," Bowler said.

Paul Clearwater & Tim Marshall

TNZ CLOSES ANALOGUE MOBILE

Telecom New Zealand officially switched off its '025' analogue mobile phone network at 6pm on Saturday. The network had a 20 year run, the last three years of which has been spent planning, implementing and communicating its shut-down. While most '025' customers were migrated to TNZ's '027' CDMA network in time for the shut-down, a statement indicated that some customers had not yet come across. The operator closed special switch-over offers when it closed the network on Saturday evening.

Comment by Grahame Lynch

The Lee era ends at SingTel

Friday marked a little-reported milestone—the departure of SingTel CEO Lee Hsien Yang to an as-yet undetermined future after a 13 year career with the operator.

The departure is significant because it quietly brings an end to a quite remarkable era for the island state telco. Back in 1994—when Lee joined—SingTel was a cosseted state monopoly fat on the artificial IDD margins that come from having a national boundary as small as western Sydney. Come 2007, SingTel is now an incredibly diversified regional telco with a strong market presence in most of the south and south east Asia Pacific markets that matter.

Lee's reputation could have perhaps suffered under the brush of connections—his father effectively founded the Singapore republic and his brother is the current prime minister. But Lee has clearly stamped out a case for his own achievements in 13 years. I remember from 1998 to 2001, when I was editor at Telecom Asia magazine, that SingTel and Lee would always poll highly in reader polls for best Asian carriers and telecom executive—often winning—and that many of those votes came from markets such as Indonesia and Hong Kong, where SingTel and Lee had clearly earned strong industry peer reputations.

I interviewed Lee a couple of times over this period and it was clear that he had a farsighted vision for transforming SingTel, enhanced no doubt by the fact that Singapore was a relatively late starter to liberalisation. One of SingTel's master strokes during this period was to diversify into markets at different stages of development. So while the domestic markets of Singapore and Australia (via Optus) provide the scale, they are also slow growth and don't provide much room for expansion. For several years the growth has come from units in Thailand and the Philippines—but now as those markets max out, the growth prospects have moved to Indonesia and India. Given the highly volatile economies and regulations in these markets, it's remarkable that only one SingTel investment could really have been judged to fail—its ill-conceived investment in the C2C intra-Asian undersea cable, one of those classic "ahead of its time" failures.

SingTel also made use of its diversification to bolster its management ranks. Singaporeans were placed in senior positions in Sydney, Australians likewise in Singapore. The board was rounded out with truly international experience—it includes captains of industry from the likes of Thailand and India, an Australian lawyer and so on.

On Friday it also emerged that Lee was taking a salary just half the market rate, according to filings on the compensation plan offered to his successor Chua Sock Koong.

Having shepherded SingTel through a global expansion and domestic market share defence era, Lee leaves Chua with a strong company that still faces many challenges to stay ahead.

SingTel might have retained market dominance at home against a strong competitor with an access network and incumbent pay TV operations in the form of StarHub but the shape of the market will change dramatically when the government there tenders for a new gigabit access network—effectively creating a netco and servco model for the industry. Whatever happens to SingTel's bid—successful or otherwise against 11 rivals—it faces what could be best described as uncharted waters.

The same applies in Australia where it seems the market is inching closer to a similar netco/servco FTTN model for the cities and a subsidised netco model for the bush. Again we're talking uncharted waters as if the current industry speculation is correct, then Optus will revert to being an access seeker for bitstream in the cities and an access provider for servcos in the bush. It's an interesting and challenging scenario in terms of margins, especially with the ACCC targeting another 50% cut to mobile termination rates—currently one of Optus' most margin heavy cashcows.

It's unlikely that we'll see any significant strategic turnarounds at SingTel under Chua—she has been at the centre of much of the decision making there in recent years anyhow as the firm's CFO and its chief of international operations. And funnily enough not only is she just one year younger than the man she replaces, but she has served at SingTel a good five years longer—first joining as its treasurer in 1989.

- There seems to be some anger about today given suggestions that Optus might pick up the $600m Broadband Connect funds without others even being given the chance to present on or revise their bids. If such a move is accompanied by a FTTN deal with Telstra, then we'd likely see the end to the short-lived G9 co-operation. But before people get too upset about Broadband Connect, it must be worth considering what is to be won. Even with up to $600m of grants, it's still going to be a tough business case to make regional broadband infrastructure work financially—especially under a open access model where you won't have 100% retail market share. There are also powerful forces of incumbency in the form of Telstra at work in the bush too. Broadband Connect might be a chalice, but who knows what kind of chalice?

Grahame Lynch