

# Unconditioned Local Loop (ULL)

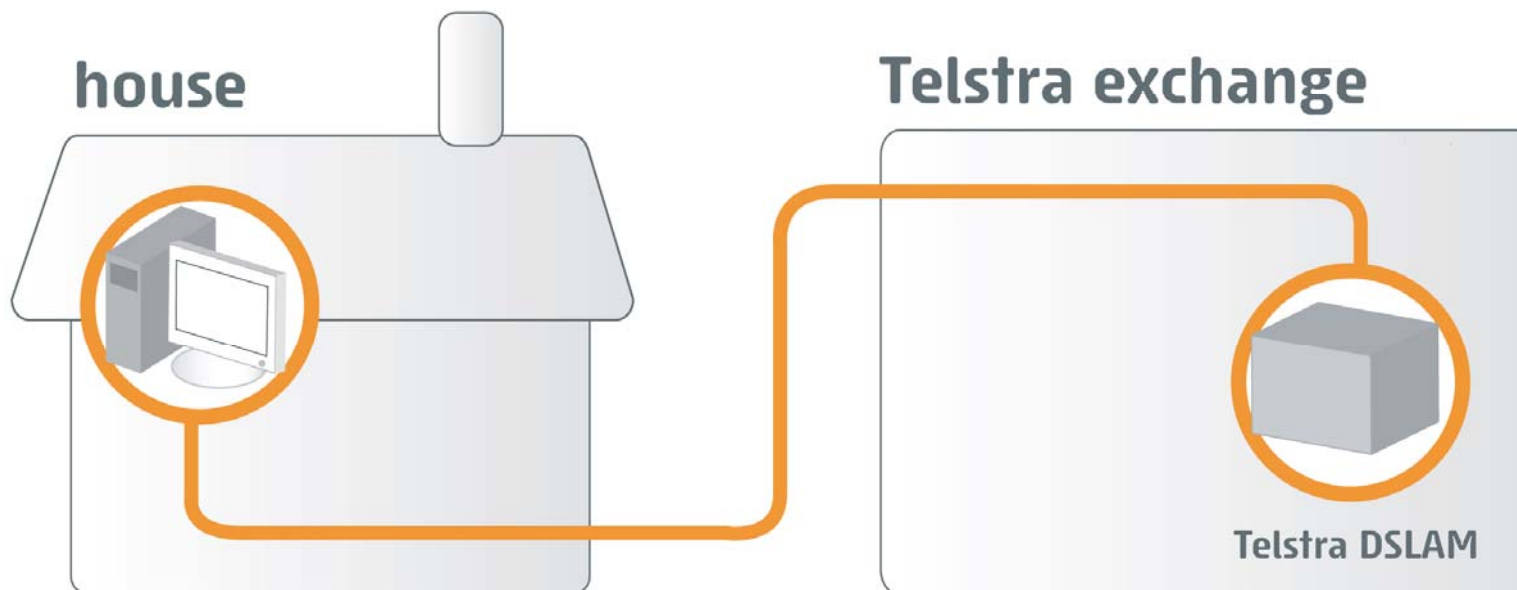
February 1, 2006

# What is ULL?

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- ULL is “Unconditioned Local Loop” meaning full access to the copper wire that customer’s house to Telstra’s suburban exchange
- The ACCC has mandated Telstra provide access to the ULL
- There are two mechanisms for a Carrier to obtain direct access to the copper:
  - LSS ( Line Sharing). Competitor has partial access to the copper line and able to insert broadband ADSL only, running on a different frequency to voice. Telstra retains the voice component.
  - ULLS (Full ULL). Competitor has full access to the copper line. Competitor physically terminates line from customers premises to their own equipment located in Telstra’s exchanges.
- For both methods, Telstra charges a monthly fee per line to cover maintenance and overhead costs. The rate that Telstra can charge is subject to regulation by the ACCC

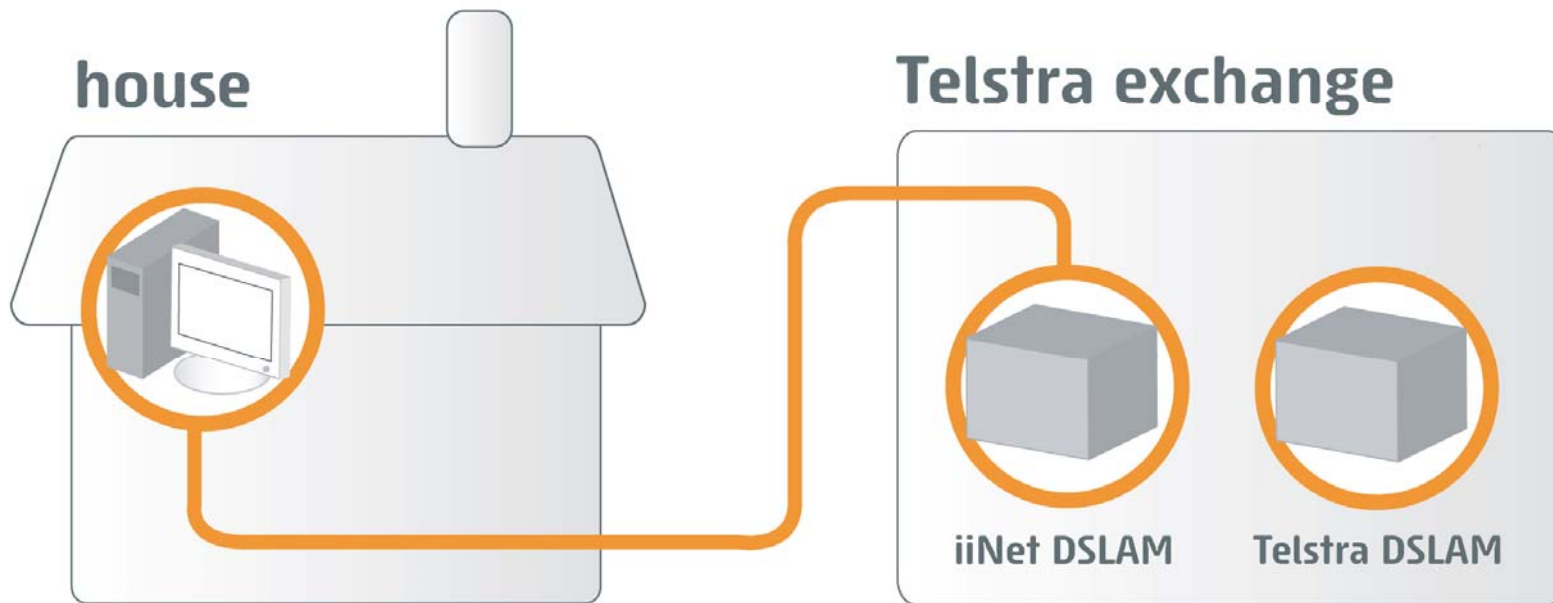
## 1 DSL wholesale customer



- iiNet buys Wholesale ADSL port from Telstra
- Price based on speed, from \$22\* (256k) to \$47\* (1.5M)
- All the equipment in the exchange belongs to Telstra
- Customer purchases telephony from Telstra or elsewhere

\* Figure from ACCC Determination

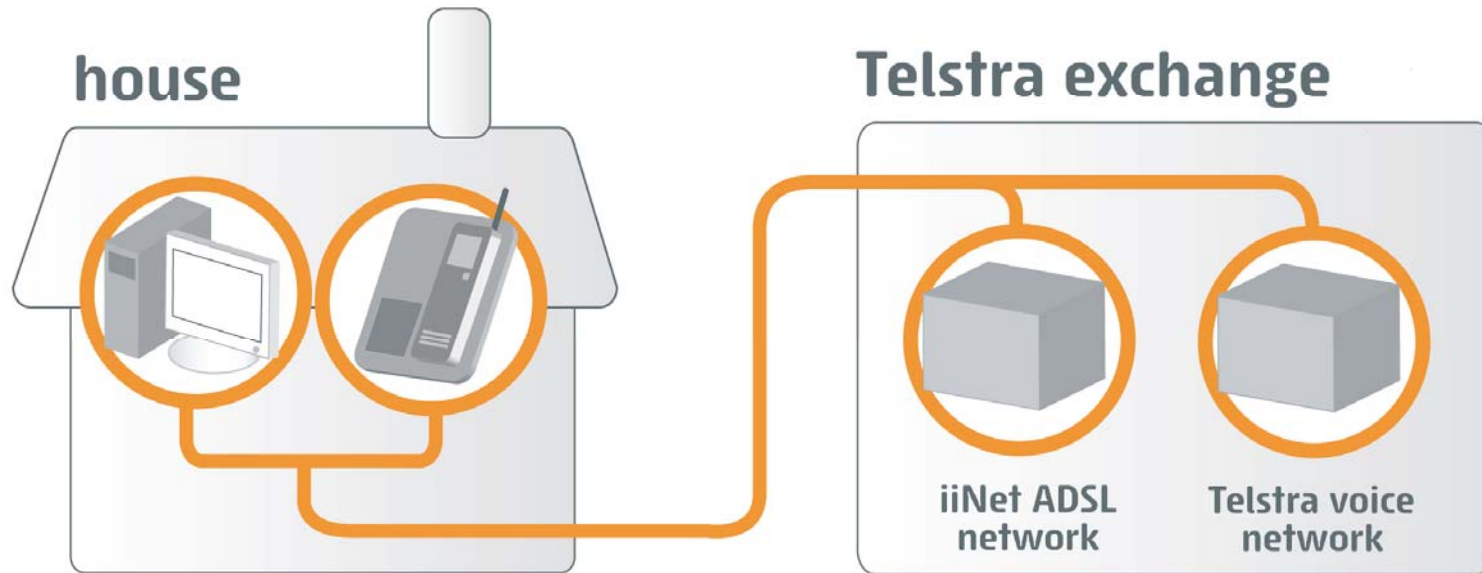
## 2 iiNet builds ADSL network



- iiNet owns its ADSL port and rents it to the customer
- iiNet pays Telstra for spectrum share (LSS) \$9.00\* per month to use the broadband part of the copper wire to the house
- Customer purchases telephony from Telstra or elsewhere

\* Figures from LSS Pricing dispute

### 3 iiNet bundles voice as a reseller

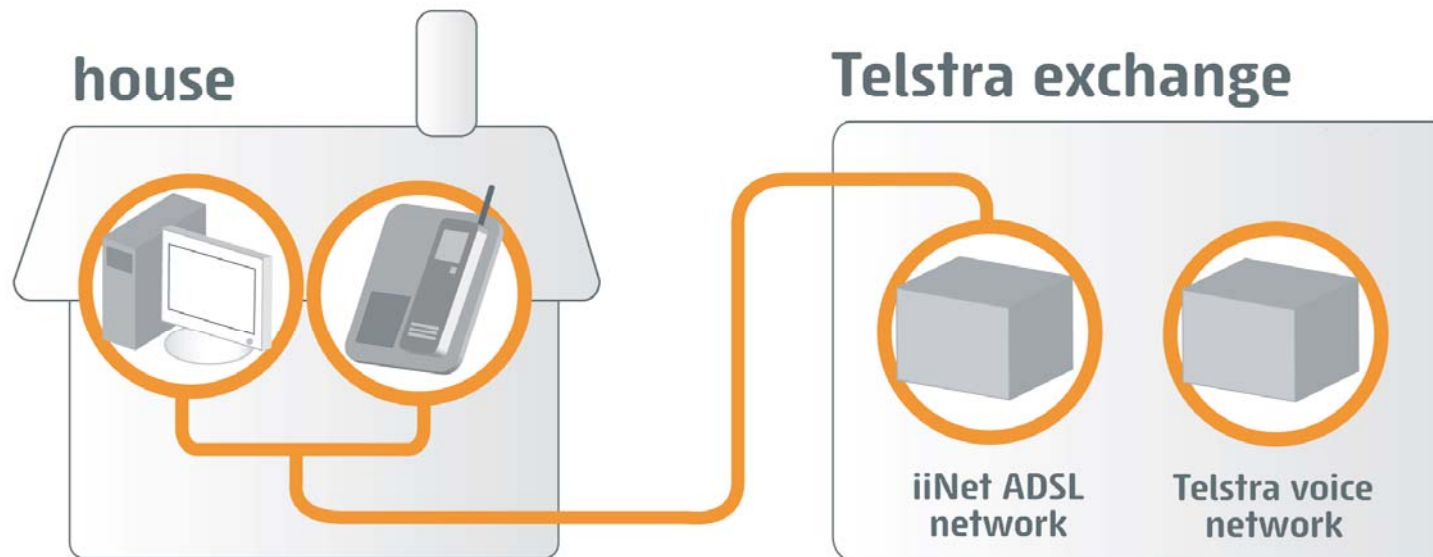


- iiNet owns its exchange ADSL equipment (as per previous slide)
- iiNet pays Telstra \$9.00 for LSS (Spectrum)
- iiNet resells a voice service entirely provided by Telstra
- iiNet pays Telstra line rental of \$27.50\* per month
- Total monthly payment to Telstra is \$36.50

\* Figures reported by Media relating to Primus Challenge



## 4 iiNet builds voice network



- iiNet owns the ADSL and voice equipment at the exchange
- iiNet rents the whole copper line to the house (ULL) and pays Telstra about \$22.00 per month
- iiNet delivers ADSL broadband (same as slide 2)
- iiNet powers and provides dial tone for telephony as well
- iiNet saves \$14.50 per month, per customer on its network

# The business case for ULL

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## Direct use of ULL offers many advantages to iiNet

- Reduces cost of providing a broadband and telephony bundle
- Increases our control over the type of services that can be delivered
- For broadband, we can offer higher speeds than currently available on basic wholesale ADSL product (up to 24M compared with 1.5M)
- Telephone calls can be carried as IP, meaning a similar cost base to VoIP
- Simple for the customer, no special VoIP equipment. All the technical work is done in the exchange, not in the customer's home.
- Allows us to differentiate

*Provides financial and operational benefits*

# Current Pricing

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## Setting of ULL pricing a contentious issue

- Sep 05 ACCC rejected prices proposed by Telstra due to inclusion of “irrelevant costs” in TSLRIC calculations :
  - Band 1 CBD \$13;
  - Band 2 Suburbs \$22;
  - Band 3 Rural \$40;
  - Band 4 Regional & Remote \$100
- Dec 05 Telstra withdrew undertaking and submitted \$30 average price for all bands.
- iiNet and other ISP’s initiated Access Disputes with ACCC due to inability to gain agreement on commercial terms
- Telstra appealed ACCC rejection on LSS and raised appeal with Australian Competition Tribunal. Seen as a test case for ULL too.
- ACCC will arbitrate on access disputes to set a prevailing rate until an undertaking is accepted



# Steps for Establishing ULL Pricing



## 1. Undertaking Process

- ACCC accepts or rejects undertaking but has no authority on pricing

## 2. Commercial Negotiations

- Provision for retrospective adjustments from lodgment date

# Current ULL Issues

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- Pricing has been an ongoing issue since it was “declared” in 1999.
- Current Telstra undertaking provides insufficient information on:
  - Connection fees
  - Migration issues
  - Other terms and conditions
- The federal government has mandated pricing parity for line rental (not ULL) between metro and regional customers. This really shouldn't affect the ULL pricing, since the pricing model is cost based, but it just might.
- Ongoing dispute resolution process unlikely to be resolved in the short term
- Ongoing uncertainty is not as bad for Telstra as it is for the rest of the industry. ULL pricing is highly material to iiNet and other fixed line players.

*Continued uncertainty on ULL pricing is likely*

# Telstra's Response

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- ULL is a threat to Telstra's existing earnings as new technology (IP) lowers the cost base for the industry and reduces Average Revenue per User
- This is not a case of value shifting from Telstra to competitors – the value is shifted to consumers as the copper network becomes a basis for the commoditisation of voice
- Telstra will aggressively defend its position:
  - Intense government lobbying to support favorable pricing outcome (average pricing)
  - Increase retail focus at expense of wholesale. Broadband highlighted as critical in Telstra's future (wholesale DSL not declared product)
  - Raise the threat of Fibre to the node (FTTN), reducing confidence in competitors relying on ULL. Economics of FTTN make no sense in low density Australian suburbia, other than blocking competitors.
- Long delays on ULL pricing will slow infrastructure deployments by competitors. Telstra can extend this further with multiple undertakings, appeals to the ACT and potentially onwards to the Federal and High Court.

# iiNet's Position

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- The copper network remains a high utility asset with up to 24M services right now! Speed and reach are increasing continuously
- The business case has not changed in the past six months, despite the noise
- iiNet is assuming \$22 per month for ULL, although we believe it should be \$16-\$18 (based on indications from ACCC and OECD averages)
- We do not expect direct government intervention in the ULL pricing decision. The government sets the rules, but the ACCC is the umpire
- We believe that the best response is to roll out rapidly, giving customers choice and demonstrating what is possible.
- However ... the uncertainty introduced by Telstra directly impacts on consumers
- iiNet will continue to work with the ACCC, industry and government to get an early, favourable decision