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An Odd Broadband Offer in Oz

Stewart Taggart  01.24.02 | 2:00 AM

SYDNEY, Australia -- Virtual private networks, cable TV, video on demand, networked gaming, telephony and high-speed Internet access -- all offered by different providers via one high-capacity digital pipe to the home.

This is broadband the way it should be -- a competitive free-for-all on the content side, but delivered through a monopoly data carrier that sweats the technical details.

At least, that's the "open-access" business model broadband provider [Transact Communications](#) is betting \$100 million on in the sleepy Australian national capital of Canberra.

Early indications look promising. Since starting up commercial service last year, nearly two-thirds of customers signing up for the service have taken the most lucrative bundle of local and long-distance telephony, cable television and high-speed Internet access.

This is more than triple the company's own early projections. But it's still early, said Robin Eckerman, spokesman for Transact, which is partially owed by the city's water and power utility.

At present, the system only has roughly 2,000 subscribers out of 22,000 homes passed. But company marketers haven't yet contacted most of those homes.

Transact is busily wiring the city with fiber-to-the-curb, 36-Mbps capacity VDSL at the rate of roughly 4,000 homes per month. It plans to have Canberra's 100,000 city homes completely wired by mid-2003.

Transact's business model differs fundamentally from broadband rollouts elsewhere, where infrastructure providers have kept a tight, vertically integrated grip over content provision.

John Barrett, a senior analyst for Pyramid Research, said the strategy holds both rewards and risks for Transact.

"To Transact's advantage, they have decided not to waste their money on developing broadband content and services, which have been marked by some high-profile failures elsewhere," he said. "The downside is that there may not be much money in utility services, which are homogenous goods."

Nonetheless, this rollout has solved -- at least in this one market -- the United States' broadband chicken-and-egg problem of infrastructure builders and content providers each wanting the other to make the first move in offering broadband services.

In Canberra, the infrastructure provider has taken the dramatic first leap. Now, the question is whether the utility can prosper by being just the toll taker on a high-speed broadband bridge.

Eckerman believes volume will be everything -- at least to the utility. By allowing a Darwinian content marketplace to thrive, a "killer application" should rapidly emerge. That, in turn, should drive system traffic -- creating transit fees for Transact and riches for the content company. In short, a rising tide will raise all ships.

At present, there are three ISPs on the Transact system and plenty of room for more, Eckerman said. While there are no technical limitations to adding ISPs to the system, Eckerman believes the Canberra broadband market may only be able to support economically at most five or six.

Each of the three ISPs presently on the system has its own data carriage arrangement with upstream Tier-1 providers that carry Internet traffic to and from the local Transact system. Each allows its customers to pick and choose pricing plans and access speeds most appropriate to their needs.

The largest of the three ISPs is [Netspeed](#), which has roughly 1,000 customers, Netspeed spokesman Brian Morris said.

"With greater competition in the broadband market, ISPs will have to keep on their toes," Morris said.

Ultimately, he believes pricing between ISPs will largely level out, with the ISPs differentiating themselves on customer service and through value-added services such as virtual private networks and networked gaming -- both of which Netspeed offers.

For Matthew Sorell, business development manager at Adelaide, South Australia's Centre for Telecommunications Information Networking, Transact is taking a bold risk. "It's a greenfield approach unhindered by the traditional telco model," Sorell said. "The big worry now is that they'll build it and no one will come."

And as Transact rolls out fiber throughout the city to within 300 meters of homes, its executives are crossing their fingers.

Nonetheless, Eckerman believes the model -- once seen as maverick -- is now being taken more seriously by telecommunications executives elsewhere.

"A few years ago, we were treated like we were off our brains for considering something like this," Eckerman said. "But there seems to be growing acceptance of what we're doing with this open network."