

# **The NBN and TV:** **how will it look and how will it work?**

**Some observations and comments by  
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## some key features of the NBN

- It will connect 90% of all homes, schools and workplaces with fibre to the premises (fttp) broadband services with speeds of up to 100Mbps
- All other premises will be connected with wireless and satellite technologies delivering speeds of 12Mbps
- Roll-out to commence in 2010 and be completed within 8 years
- NBN Company will be co-owned by the Federal Government and private sector interests who together will invest up to \$43 billion in the network
- The network will be a wholesale-only, open access broadband network



## the speed of the NBN

With speeds of 100 Mbps to most premises, the NBN will be significantly faster than most existing internet services



Internet Speeds in Australia as at 30 June 2009			
		# of Subs	% of Total
		000s	%
Less than 256 Kbps		1103	13.1
256 to 512 Kbps		1297	15.4
512 Kbps to 1.5 Mbps		1249	14.8
1.5 to 8 Mbps		2529	30.0
8 to 24 Mbps		1800	21.4
24+ Mbps		443	5.3
<b>Total</b>		<b>8420</b>	
<b>Of which:</b>			
<b>Households</b>		<b>7031</b>	
<b>Other</b>		<b>1389</b>	

Source: ABS 8153.0 Internet Activity, Australia, June 2009

## the NBN's high speed will facilitate video downloading

Continuous download speed	Download time for average compressed movie (1 GB of data)
100 Mbps	1 min & 20 Sec
30 Mbps	4 min & 27 sec
12 Mbps	11 min & 7 sec
256 kbps	8 hrs & 41 min
56 kbps	1 day & 16 hrs

source: NBN Policy Brochure - 25 May 2009



## roll-out and take-up of the NBN

Some analysts predict that it will take more than 8 years to fully roll-out the NBN and that the take-up of the network by retail customers may take longer than many expect



Forecast Penetration and Take-Up of the NBN					
	2012	2015	2020	2025	
<b>Year:</b>					
<b>Year From Commencement:</b>	2	5	10	15	
<b>Percent of All Households Passed by the NBN</b>	15%	40%	65%	90%	
<b>Percent of All Households Taking Up the NBN</b>	3%	14%	33%	68%	

## capital cost & cost of capital of the NBN

- Many analysts, and reportedly also senior staff at NBN Co itself, believe that the capital cost of the network will be significantly less than the \$43 billion which was estimated by the Federal Government
- Many also believe that NBN Co will have a relatively low cost of capital given the Federal Government's stated intention to retain a majority stake in NBN Co until at least 5 years after the completion of the network's roll-out and to issue infrastructure bonds as part of venture's funding mix



## likely wholesale & retail pricing of the NBN

- Opinions vary widely as to the level of wholesale and retail pricing which will be required for the NBN to both achieve a high take-up and to realise a reasonable return on its investment
- Mike Quigley, NBN Co's executive chairman, recently stated that access to the new network will "...have to be priced to meet the market..." and that it will "... need to have an entry level price...that's commensurate with the equivalent services today..."
- But many commentators and analysts suggest that such pricing levels may not be high enough to generate a return on investment sufficiently attractive to encourage private sector investment in NBN Co

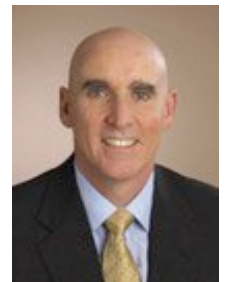


**14 GB Plan**  
**\$59.99** a month  
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+ Online bonus 7GB Off Peak Data  
Min cost = \$1,697.71

**30 GB Plan**  
**\$79.99** a month  
15GB Peak - 15GB Off Peak  
+ Online bonus 15GB Off Peak Data  
Min cost = \$2,177.71

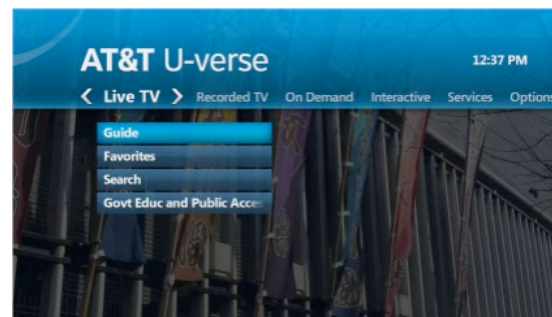
**60 GB Plan**  
**\$109.99** a month  
30GB Peak - 30GB Off Peak  
+ Online bonus 30GB Off Peak Data  
Min cost = \$2,897.71

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## the NBN likely to be configured for multicast IPTV services

According to the local trade press, NBN Co's executive chairman, Mike Quigley, was intimately involved with roll-out of AT&T's U-verse fibre-to-the-node rollout in the US when in his former role as chief operating officer of Alcatel-Lucent, and it is suggested that the NBN make take architectural inspiration of the U-verse project.



## a wholesale-only and open access broadband network

- Being a wholesale-only and open access network, the NBN will be atypical of most international IPTV capable broadband networks
- Overseas such networks are usually constructed and operated by an incumbent or new entrant telco which is seeking to compete against an established cable or pay tv operator by offering a bundled IPTV service as part of a triple or quad play product offerings to existing and new customers





## is IPTV a threat to traditional free-to-air & subscription TV ?

- To consumers, IPTV will be “television” and in the medium to longer term it is likely to capture an increasing share of viewers and revenues at the expense of both free-to-air and subscription television service providers
- Major revenue sources for IPTV services will probably include: subscription revenue, pay-per-view fees and advertising, particularly targeted advertising
- However the NBN will also represent an opportunity for the traditional TV service providers since they too will be able to access the network as a new and enhanced delivery platform for their content & services



## some key features of the Australian television market



		Metro Markets	Regional Markets	Total Australia
<b>Total Households</b>	m	5.3	3.2	8.5
<b>Total Populati on</b>	m	14.2	8.0	22.2
<b>2008/09 Revenues:</b>				
<b>FTA TV Adverti sing</b>	\$b	2.7	0.8	3.5
<b>Pay TV Subscripti on</b>	\$b	1.6	0.6	2.2
<b>Pay TV Other</b>	\$b			0.3
<b>All Sources</b>	\$b			6.0



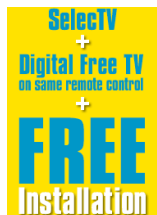
## some key subscription TV statistics as at June 2009

Operator:	# of subs m	% of all subs %	household penetration %	ARPU 2009 FY \$ per mo
<b>Foxtel</b>	<b>1.63</b>	<b>69</b>	<b>31</b>	<b>86.00</b>
<b>Austar</b>	<b>0.73</b>	<b>31</b>	<b>29</b>	<b>80.15</b>
<b>Total</b>	<b>2.36</b>	<b>100</b>		



## some concluding observations

- Given that the NBN will be an open access network, no existing or aspiring IPTV service provider will have a major technological advantage over any rivals. Instead access, particularly exclusive access, to quality content combined with high quality customer management systems and access to large strong balance sheets are likely to be among the key drivers of success in the future IPTV environment
- Unlike the situation in many international markets, Australia's two largest telcos already have a high quality television offering through Foxtel which they can bundle with their other service offerings and therefore it could be argued that neither are likely to launch new competing IPTV services unless Telstra is forced to sever its existing links with Foxtel
- If this is so, then this leads to the very interesting question of who are likely to be the major promoters of new IPTV services in Australia



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