
The Parliament of the Commonwealth of Australia

Review of the Rollout of the National Broadband Network

Fourth Report

Joint Committee on the National Broadband Network

February 2013
Canberra

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Chair's Foreword

This is the fourth review report of the Joint Committee of the National Broadband Network and has proved to be the most difficult of all four. Even though we have successfully come inside the Terms of Reference reporting date by 24 hours, it has been several months of disagreement between committee members on some very basic points in this report that have seen the report delivered later than planned.

This is disappointing. The tradition of committee membership in Australian political culture is that adversarial politics is left at the door. It is a concern to many that this culture is showing signs of changing on this Committee, where sensitivities of our oversight work as compared to political party election platforms has made the work of the committee much more difficult than it need be. In my view, this is an early warning sign that the topic of higher speed broadband technology is likely to feature strongly in political debate throughout 2013, an election year.

I want to pay a very special tribute to the staff of the Secretariat of the JCNBN. At times, they were unfairly caught in the middle of party politics. They managed this with great skill and dexterity, and the fact a report of any kind has been able to be produced, is a direct credit to these individuals. Through this period, we lost Peter Stephens to a different role in the Parliament. I particularly thank Peter for his work, and his subtle skills in managing a highly charged political committee reflects very well on his knowledge of the APS and Parliamentary culture and practice.

This year, there is one more report due in July/August, as a fifth and final report of the NBN oversight committee. Between now and then, public hearings involving the NBN Co CEO and the Department will be held. Personally, I am concerned about setting the Secretariat up to fail in trying to get a committee report produced several months before an election. Therefore, I do flag we may not be able to reach agreement and may not produce a fifth report at all.

I am not confident that the focus of the committee is an oversight of an existing build under the existing Shareholder Ministers arrangements. Instead, I think the

committee has become somewhat stuck on a policy dispute between different build options, and will only deepen divisions on this in the pre-election period.

If we can manage to produce a 5th report, there is a danger it won't mean much from an oversight perspective. Despite the opportunities to report and provide oversight on a number of important aspects of the current roll-out, there is every chance the next report will be nothing more than a compendium of political statements and election promises. If this is all we can produce, I could write it now, and it makes the entire committee process worthless and a waste of time for all involved.

I therefore hope I am wrong, and in a way challenge the committee members to revel in proving me wrong, in a hope that the work of an important committee of 16 MP's and Senators, with 68 participating MP's and Senators, does actually have some worth in advancing policy for Australia over the coming six month period. Somewhat naively, I live in hope!

Enjoy this fourth report, and the additional comments. It has, for many, been many hours of hard work.

Robert Oakeshott MP
Chair



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Committee Membership

Chair Mr Robert Oakeshott MP

Deputy Mr Rob Mitchell MP (from 14.3.2012)
Chair

Members Mr Paul Fletcher MP

Mr Luke Hartsuyker MP

Mr Ed Husic MP

Hon Sussan Ley MP

Ms Amanda Rishworth MP (from
21.11. 2011 until 14.8.2012)

Ms Michelle Rowland MP (until
21.11.2011 then from 14.8.2012)

Mr Mike Symon MP

Hon Malcolm Turnbull MP

Senator Simon Birmingham

Senator Carol Brown (until 21.6.2012)

Senator Doug Cameron

Senator Mary Jo Fisher (until 10.8.2012)

Senator Alex Gallacher (from 16.3.2012)

Senator Scott Ludlam

Senator the Hon Ian Macdonald

Senator Dean Smith (from 10.9.2012)

Senator the Hon Lin Thorp
(from 21.6. 2012)

Participating Members

Senator the Hon Eric Abetz

Senator Chris Back

Senator Cory Bernardi

Senator Catryna Bilyk (from 24.3.2011)

Senator Mark Bishop (from 24.3.2011)

Senator the Hon Ronald Boswell

Senator the Hon David Johnston

Senator Barnaby Joyce

Senator Helen Kroger

Senator Gavin Marshall (from 24.3.2011)

Senator the Hon Brett Mason

Senator Anne McEwan (from 24.3.2011)

Senator Sue Boyce	Senator Claire Moore (from 24.3.2011)
Senator the Hon George Brandis SC	Senator Fiona Nash
Senator Carol Brown (from 21.6.2012)	Mr Paul Neville MP (from 10.5.2011)
Senator David Bushby	Senator Stephen Parry
Senator Michaelia Cash	Senator Marise Payne
Senator the Hon Richard Colbeck	Senator Helen Polley (from 24.3.2011)
Senator Mathias Cormann	Senator Louise Pratt (from 24.3.2011)
Senator Trish Crossin (from 24.3.2011)	Senator the Hon Michael Ronaldson
Mrs Yvette D' Ath MP (from 19.3.2012 to 4.2.2013)	Senator Scott Ryan
Senator Alan Eggleston	Senator Anne Ruston (from 12.9.2012)
Senator the Hon John Faulkner (from 24.3.2011)	Hon Bruce Scott MP (from 26.5.2011)
Senator Concetta Fierravanti-Wells	Senator the Hon Nigel Scullion
Senator Mitch Fifield	Senator Arthur Sinodinos AO (from 12.9.2012)
Senator Mark Furner (from 24.3.2011)	Senator the Hon Ursula Stephens (from 16.3.2012)
Senator the Hon Bill Heffernan	Senator Glenn Sterle (from 24.3.2011)
Senator Gary Humphries	Senator John Williams
	Senator Nick Xenophon

Committee Secretariat

Committee Secretary	Mr Peter Banson (from 13.2.2013)
	Mr Peter Stephens (until 6.2.2013)
Inquiry Secretaries	Ms Stephanie Mikac
	Dr Bill Pender
	Dr Kate Sullivan



Terms of Reference

The resolution of appointment establishing the Joint Committee on the National Broadband Network was passed by the House of Representatives on 1 March 2011 and by the Senate on 3 March 2011 and provides:

- (1) That a Joint Committee on the National Broadband Network be appointed to inquire into and report on the rollout of the National Broadband Network (NBN);
- (2) That every six months, commencing 31 August 2011, until the NBN is complete and operational, the committee provide progress reports to both Houses of Parliament and to shareholder Ministers on:
 - (a) The rollout of the NBN, including in relation to the Government's objective for NBN Co Limited (NBN Co) to:
 - (i) connect 93 per cent of Australian homes, schools and businesses with fibre-to-the premises technology providing broadband speeds of up to 100 megabits per second, with a minimum fibre coverage obligation of 90 per cent of Australian premises; and
 - (ii) service all remaining premises by a combination of next-generation fixed wireless and satellite technologies providing peak speeds of at least 12 megabits per second;
 - (b) The achievement of take-up targets (including premises passed and covered and services activated) as set out in NBN Co's Corporate Plan released on 20 December 2010 as revised from time to time;
 - (c) Network rollout performance including service levels and faults;
 - (d) The effectiveness of NBN Co in meeting its obligations as set out in its Stakeholder Charter;
 - (e) NBN Co's strategy for engaging with consumers and handling complaints;
 - (f) NBN Co's risk management processes; and
 - (g) Any other matter pertaining to the NBN rollout that the committee considers relevant.



List of abbreviations

ABG	Australian Broadband Guarantee
ACCAN	Australian Communications Consumer Action Network
ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
AEW	Automatically Eligible Workgroup
AQF	Australian Qualifications Framework
AS	Australian Standard
BRT	Business Readiness Testing
CDP	Contract Development Process
CEO	Chief Executive Officer
CEPU	Communications, Electrical and Plumbing Union
CFH	Crown Fibre Holdings
Cth	Commonwealth
CVC	Connectivity Virtual Circuit
DBCDE	Department of Broadband, Communications and the Digital Economy
FAN	Fibre Access Node
FTTP	Fibre-to-the-Premise
FY	Financial Year

HFC	Hybrid fibre coaxial
ICT	Information Communication Technology
ISS	Interim Satellite Service
JCNBN	Joint Committee on the National Broadband Network
KPI	Key Performance Indicator
LFC	Local Fibre Company
LTSS	Long Term Satellite Service
Mbps	Megabits per second
MDU	Multi-Dwelling Unit
NAC	National Advisory Committee
NBN	National Broadband Network
NBN Co	NBN Co Limited
NTD	Network Termination Device
NZCEP	New Zealand Committee Exchange Program
NZ	New Zealand
Optus	SingTel Optus Pty Ltd
PERSA	Personal Emergency Response Services Association
PCD	Premise Connection Device
PoI	Point of Interconnect
PPP	Public-Private Partnership
RBI	Rural Broadband Initiative
RFD	Retraining Funding Deed
RoA	Resolution of Appointment
RPL	Recognition of prior learning

RSP	Retail Service Provider
SAS	Satellite Access Service
SAU	Special Access Undertaking
SDU	Single Dwelling Unit
SFAA	Standard Form of Access Agreement
SSU	Structural Separation Undertaking
TPC	Telecommunications Protection Code
UFB	Ultra Fast Broadband
UNI-D	User Network Interface Data
UNI-V	User Network Interface Voice
US	United States of America
VSAT	Very small aperture terminal
VoIP	Voice over Internet Protocol
WAS	Wireless Access Service
WBA	Wholesale Broadband Agreement
WSA	Wireless Serving Area
WuW	Work Under Way



Recommendations

2 Performance Reporting

Recommendation 1

The committee recommends that the key performance indicator information presented in the Shareholder Ministers' six-monthly National Broadband Network (NBN) performance report list and detail: (1) established Business Plan targets and (2) actual results which track the progress of the NBN rollout over each six month period as well as yearly, to enable the comparison of actual physical NBN rollout results with published NBN Co Corporate Plan targets.

Recommendation 2

The committee recommends that the Shareholder Ministers' six monthly performance report on the progress of the National Broadband Network rollout include audited financial statements with accompanying explanatory notes, and where it is not possible to provide these in the first instance, that they be forwarded to the Joint Committee on the National Broadband Network when prepared, as an addendum to the Performance Report.

Recommendation 3

The committee recommends that subsequent Shareholder Ministers' six monthly performance report on the progress of the National Broadband Network rollout be provided to the committee no less than one month before the scheduled biannual hearing with the Joint Committee on the National Broadband Network.

4 Regional and Remote Issues

Recommendation 4

The committee recommends that the Government support the NBN Co to continue to:

- explore the synergies between fixed and mobile telecommunications networks with a view to using the National Broadband Network to improve mobile telecommunications; and
- facilitate private providers use of NBN Co infrastructure to provide and improve mobile telephone services and coverage across Australia, particularly in regional and remote areas.

5 Additional Issues

Recommendation 5

The committee recommends that the Department of Broadband, Communications and the Digital Economy (DBCDE) and NBN Co continue to work with the Personal Emergency Response Services Association, the Communications Alliance and retail service providers to implement a range of initiatives to address concerns with the operation of medical alarms for aged and at-risk persons under the National Broadband Network rollout. This process should be in consultation with the Australian Communications and Media Authority, with the DBCDE to report back to the committee on specific progress in this area.

6 Private Equity Engagement and Workforce Issues

Recommendation 6

The committee recommends that the Government:

- seek to gauge investor interest in the National Broadband Network; and
- investigate the optimum capital structure for the NBN Co.

Recommendation 7

The committee recommends that, in providing an annual statement to the committee on the progress of the Telstra Retraining Funding Deed (RFD), the Department of Broadband, Communications and the Digital Economy (DBCDE) include in this information an update on:

- ongoing company retention rates for employees in the Automatically Eligible Workgroup, retrained under the RFD;
- the current numbers and roles of employees in the other eligible workgroup under the RFD and an overview of the current reasons for eligibility or exclusion in terms of this group.

Recommendation 8

The committee recommends that, in providing an annual statement to the committee outlining the major areas of emerging National Broadband Network (NBN) workforce demand and training need, the Department of Broadband, Communications and the Digital Economy include in this information a more detailed report on:

- the workforce development strategy supporting the NBN rollout, including current workforce modelling and outcomes from work with training organisations and industry skills boards, to identify skills gaps in this area and develop training programs;
- how the development and implementation of this overall workforce strategy is being coordinated.

Introduction

Background

- 1.1 The Shareholder Minister's Third Performance Report (the Performance Report) on the rollout of the National Broadband Network (NBN) details performance information relating to progress of the NBN rollout for the six month period from 1 January to 30 June 2012.
- 1.2 Since the second Performance Report, the NBN Co Limited (NBN Co) has revised its performance targets and issued a new Corporate Plan.¹ The new corporate plan 'incorporates the following major changes when compared to the' ...previous...' corporate plan:'
- 'Changes in the scope of the overall project resulting from:
 - ⇒ The inclusion of the Optus HFC Agreement in the Corporate Plan forecasts; and
 - ⇒ The latest assessment of the impact of implementing a number of policy requirements, including the full impact of the New Developments policy announced in December 2010 and revised in June 2011; the impact of the 121 semi-distributed Points of Interconnect decision; and the requirement for NBN Co to rollout the Fibre network in all the current Telstra Band 1 and Band 2 copper exchanges.
 - Other changes since the 2011-13 Corporate Plan resulting from:

1 The NBN Co Corporate Plan 2012-2015 released on 8 August 2012 replaces the NBN Co Corporate Plan 2011-2013 released 20 December 2010.

- ⇒ The impact of the delayed Commencement Date of the Telstra Definitive Agreements, which has led to a corresponding delay in the start of the volume rollout;
- ⇒ Reduced Capital Expenditure and increased Operating Expenditure as a result of more infrastructure being accessed under the Telstra Definitive Agreements; and
- ⇒ Accelerated Capital Expenditure during the Construction period to FY2021 as a result of adopting a 'Build Drop' strategy for connecting premises to the Fibre network.²

1.3 These changes in scope outlined in paragraph 1.4.1 of the 2011-2013 Corporate Plan have contributed to a 'decrease in capital expenditure during the construction period, an increase in operating expenditure to 2021 and'...an overall 'reduction in revenues to' 2021 'compared with the' previous corporate plan.³ The NBN Co has attributed the changes to its financials, but not limited these changes to the:

- 'Delayed commencement of volume rollout
- Increased Telstra Infrastructure, and
- Accelerated Customer Connect Costs.⁴

1.4 In regard to outstanding regulatory issues, the NBN Co Special Access Undertaking (SAU) has been withdrawn, revised and resubmitted to the Australian Competition and Consumer Commission (ACCC) for formal consideration.⁵

Committee's Role

1.5 Pursuant to its Resolution of Appointment (RoA) and in accordance with its terms of reference, the committee is required to report to the Parliament and the NBN Shareholder Ministers⁶ every six months 'until the NBN is complete and operational'.

2 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 10.

3 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 12.

4 NBN Co, *Corporate Plan 2012-2015*, August 2012, pp 12 and 13.

5 ACCC, 2012, ACCC Receives New NBN Co Special Access Undertaking, media release, 28 September.

6 The Shareholder Ministers are Senator the Hon Stephen Conroy, Minister for Broadband, Communications and the Digital Economy and Senator the Hon Penny Wong, Minister for Finance and Deregulation.

- 1.6 The committee is primarily enabled to examine and report on matters relating to the NBN Co's objective to connect Australian premises to the NBN which includes:
- the achievement of take-up targets as outlined in the NBN Co Corporate Plan
 - Progress of the NBN rollout and performance matters relating to the NBN Co such as consumer engagement, complaint handling, risk management and
 - 'any other matter pertaining to the NBN rollout that the committee considers relevant.'
- 1.7 To date, the committee has reviewed and reported on a number of significant and ongoing issues associated with the NBN rollout which include:
- NBN rollout across the three technologies of fibre, wireless and satellite
 - issues raised and faced by regional and remote areas
 - regulatory issues associated with establishment of the NBN
 - E-readiness of small business, communities, governments and individuals and associated consultation by the NBN Co
 - funding arrangements directly and indirectly associated with the NBN
 - Telstra workforce issues associated with the Retraining Funding Deed under the Binding Definitive Agreement between the NBN Co and Telstra Corporation (Telstra).
- 1.8 The Shareholder Ministers' Performance Report provides an overview of the NBN Co's progress in managing the NBN rollout for the six month period ended on 30 June 2012. In addition, information covering the period from 1 July to 1 October 2012 has been included in the Performance Report. As a result, as contained in previous reports,⁷ the committee is again able to follow and report on matters progressed and on current issues.
- 1.9 Information contained in the Performance Report forms the basis of the committee's six-monthly review, and is supplemented with submissions, published reports, hearings and questions placed on notice which are part of the formal parliamentary committee inquiry and review process.
- 1.10 The committee has in its First, Second and Third reports commented on:
-

7 These are the committee's First, Second and Third Reports.

- specific key performance indicators to be included in future Shareholder Minister's reports, and
 - the delay in receiving answers to questions placed on notice with the NBN Co and the Department of Broadband, Communications and the Digital Economy (DBCDE).
- 1.11 The committee is continuing its pursuit of these matters in its Fourth Report.

Reporting Timeframe

- 1.12 Through its RoA, the committee is required to report to the Parliament every six months on the progress of the NBN rollout. With agreement from the Shareholder Ministers the committee reports biannually in June and December.
- 1.13 In line with reporting requirements, the committee previously reported (Third Report) in June 2012 on the progress of the six monthly NBN rollout period from 1 July to 31 December 2011, and a number of regulatory events that took place outside this six month timeframe. These events flowed on into the first half of 2012.
- 1.14 This is the committee's fifth report on NBN related matters and the fourth NBN rollout review report. The Fourth Report includes examination and comment on the progress of the six monthly NBN rollout from 1 January to 30 June 2012, as well as discussion, where relevant, on current matters associated with the NBN rollout.
- 1.15 The Fourth Report also includes continuing examination and commentary on the progress of the NBN rollout and associated regulatory matters, initially reported on in the First Report.

About the Review

Objectives and Scope

- 1.16 As part of its Fourth Review, the committee examined and provided comment on:

- The NBN rollout through the fibre, satellite and fixed wireless networks and associated issues such as service delivery, community consultation, public education and engagement activities;
 - KPIs included in the Shareholder Ministers' six monthly performance report;
 - ongoing regulatory and pricing issues.
- 1.17 The committee has also continued its examination of:
- The potential of private equity to fund the NBN, and
 - Telstra workforce issues associated with the Retraining Funding Deed under the Telstra Agreement.

Conduct

- 1.18 A media release issued on 20 June 2012 announced the commencement of the Fourth Review and called for submissions to be received by 3 August 2012. In addition, a similar advertisement appeared in *The Australian* on 11 July 2012.
- 1.19 Appendix A lists the 28 submissions and three exhibits received as part of the Fourth Review.
- 1.20 The committee subsequently held four public hearings in Canberra on 26 June, 14 August, 9 and 30 October 2012.
- 1.21 Witnesses who gave evidence at public hearings are listed at Appendix B. Transcripts of the public hearings are available at www.aph.gov.au/jcnbn.

Information Provided to the Committee

- 1.22 The committee has previously reported on the limited information provided to it by the NBN Co and the DBCDE in reference to its Third Review. More specifically, the committee has noted the continued lateness of receiving pertinent answers to questions on notice, and the unnecessary pressure this has placed on the committee's reporting timeframe.
- 1.23 In an effort to assist both the NBN Co and the DBCDE to provide answers to questions on notice within an acceptable timeframe, individual members of the committee placed a number of questions on notice for response in advance of between six and two weeks of the 30 October 2012

public hearing. By the 30 October 2012 hearing, only five answers to the 17 questions placed on notice had been received by the committee.

- 1.24 Following the public hearing on 30 October 2012, the committee was informed via correspondence from the DBCDE that it would receive answers to questions on notice 'at the earliest opportunity and to the best extent possible' the DBCDE 'will endeavour to meet the committee's deadline.'⁸
- 1.25 Over the course of three weeks, the committee received the majority of its answers to questions on notice which enabled it to adequately finalise its report. Additional comment about information provided to the committee during the course of its Fourth Review is included in Chapter 2.

Committee's Visit to New Zealand

- 1.26 From 24 to 28 September 2012 the committee represented the Australian Parliament in the reciprocal Australia New Zealand Parliamentary Committee Exchange Program (NZCEP). As part of its New Zealand visit, the committee met with private and public sector individuals and organisations involved in the design, development, and implementation of the New Zealand high speed broadband network.
- 1.27 In addition, the committee met with parliamentary representatives including the: Minister for Communications and Information Technology, Minister of Commerce, Spokesperson for Economic Development, Commerce Select Committee, previous members of the Finance and Expenditure Select Committee and the Speaker of the New Zealand Parliament.
- 1.28 As part of its visit, the committee undertook a half day inspection of fibre and copper broadband network infrastructure, including the central exchange in Wellington.
- 1.29 The Visit Report attached to this report includes an overview of New Zealand's experience in the development and early build of its high speed broadband network and associated issues, as well as a summary of the issues discussed by Members.

8 Correspondence from the DBCDE dated and received 13 November 2012.

Report Outline

- 1.30 Chapter 2 examines the six monthly NBN rollout performance information and associated issues. This includes discussion about the revision of targets and key performance indicators contained in the new NBN Co Corporate Plan.
- 1.31 Chapter 3 continues discussion of the regulatory and pricing issues associated with the rollout of the NBN. Matters discussed include: the ACCC review of the NBN Co SAU and developments relating to the term of the Wholesale Broadband Agreement.
- 1.32 Chapter 4 continues examination of issues associated with the NBN rollout to regional and remote Australia through the fibre, satellite and fixed wireless networks.
- 1.33 Chapter 5 discusses additional issues relating to the NBN rollout such as medical alarms and the connection of multi-dwelling units.
- 1.34 Chapter 6 examines issues associated with private equity engagement in funding the NBN. It also considers Telstra workforce issues associated with the Retraining Funding Deed under the Telstra Agreement.
- 1.35 The committee's report on the 2012 NZCEP is included following the body of this report as a stand-alone chapter. The delegation report contains a summary of the information presented to Members and the associated issues discussed during the committee's visit to New Zealand.

Performance Reporting

Background

- 2.1 The Shareholder Ministers' Third National Broadband Network (NBN) rollout Performance Report (the Performance Report) covers the six month period ended on 30 June 2012.
- 2.2 The Third Performance Report includes:
- A summary of the key milestones met by NBN Co Limited (NBN Co) in the period covered
 - Six monthly and annual financial statements for the period ended 30 June 2012, and
 - 'Measurement against' Key Performance Indicators (KPIs) for the NBN Co 'as at 30 June 2012'.¹
- 2.3 This chapter outlines and discusses the performance information associated with the physical NBN rollout. Discussion on additional NBN rollout issues such as medical alarms and providing a fibre connection to multi-dwelling units is included in Chapter 5. An outline of the progress on regulatory and pricing issues is included in Chapter 3. Remaining issues relating to regional and remote Australia are discussed in Chapter 4.

¹ Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 3.

Key Features of the Performance Report

Format and Content

- 2.4 The Third Performance Report provides an overview of the status of the NBN rollout in a similar format to the previous performance report. The KPIs table at the back of the report provides an overall snapshot of the progress of completion of the fibre, fixed wireless and satellite networks. Unaudited financial results for the NBN Co Group have continued to be included within the Performance Report.
- 2.5 The main difference in the presentation of the information contained in the Performance Report is that the data for the fixed wireless and satellite networks has now been combined.
- 2.6 A map of the places visited by the NBN Co Discovery Truck (covering New South Wales, South Australia, Tasmania and Victoria) is included as an attachment for the first time.
- 2.7 A similar qualifying statement as included in previous Performance Reports, supporting the status of the NBN rollout is included. The NBN Co has stated in the preamble to its 'Corporate KPI' tables:
- This is the third report and as such reflects initial reporting while systems and reporting processes are still in development. The data will become more meaningful against actual and forecast measures as the reporting series builds up over time. This report is consistent with a start-up company in the early years of the rollout. Further KPIs will be brought online as agreed with the Shareholders.²
- 2.8 In response to the change in KPIs and comparing NBN rollout performance against targets into the future, the NBN Co stated:
- The KPI reporting framework has been broadly consistent across each of the three progress reports provided to the [committee]. The indicators included in future reports will be expanded so that, over time, the reports will include further detail as the company and its reporting systems mature and the rollout ramps up. KPIs will measure NBN Co performance against its Corporate Plan targets.³

2 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 36.

3 NBN Co, *Submission 7.10*, Answer to Question on Notice No. 6.

Key Performance Indicators

New Targets and Timeframes

- 2.9 The NBN Co Corporate Plan sets out a revised table of NBN targets for premises passed or covered and premises with active service, but with new classifications of the three technologies under the NBN.⁴
- 2.10 The Fibre-to-the-Premise (FTTP) Brownfield category remains; fixed wireless and satellite have been combined; and FTTP for Greenfields is represented separately. In addition, figures are presented as cumulative year on year instead of incremental year on year.⁵
- 2.11 The NBN Co explained the reason for combining the fixed wireless and satellite targets and stated:
- The reason we have combined them is that we are finding that, where we are not able to put up a cell site, a tower, we obviously have to use a satellite solution – and we have made that very public. The reason we have then combined them is that we want to have that flexibility in case we cannot get a site approved. ... We are not certain of the break-up, so we thought it best to say: this is the total of those two technologies.⁶
- 2.12 While ‘the annual run rate is back in line with the 2011-2013 Corporate Plan by FY2015’, changes to deployment forecasts have been attributed to the below factors:⁷
- Delays in finalising the conditions precedent of the Telstra Agreement
 - Prolonged negotiations in order to achieve sustainable and cost effective construction contracts
 - The decision to increase the points of interconnect from 14 to 121
 - Slower than anticipated occupation rate and connection demand in new developments
 - Priority given to deployment of the transit network, NBN Co’s obligation to connect new developments and deployment of the fixed wireless network.⁸

4 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

5 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

6 Mr Mike Quigley, CEO, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 19.

7 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 35.

8 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 35.

- 2.13 Tables of targets included in both the 2011-2013 Corporate Plan and the 2012-2015 Corporate Plan follow.

Drawing Target Comparisons

- 2.14 Comparing the targets of premises passed figures in the NBN Co Corporate Plan 2011-2013 and similar targets in the new NBN Co Corporate Plan 2012-2015 shows a marked difference in figures.
- 2.15 For the financial year ended on 30 June 2012, the original target for FTTP Brownfields for Premises Passed or Covered was 132 000, this figure was revised down to 29 000 in the new NBN Co Corporate Plan 2012-2015. The actual figure reached as stated in the Performance Report is 28 860 premises passed. Similarly, the majority of targets originally listed in the NBN Co Corporate Plan 2011-2013 have either been revised down, combined or no original target figure published.
- 2.16 The legal notice preamble in the NBN Co Corporate Plan 2013-2015 places a caveat on its 'forward looking statements'. The Legal Notice states:
- ...Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond NBN Co's control. While such forward looking statements are based on NBN Co's best considered professional assessment, NBN Co's officers do not give any assurance to any third party that the results, performance or achievements expressed or implied by such forward looking statements will actually occur, and such statements should not be relied on or considered to be a representation of what will happen by any third party. Other than as required by NBN Co's reporting obligations to the Commonwealth, NBN Co and its officers have no obligation to update these forward looking statements based on circumstances, developments or events occurring after the date of this Corporate Plan.⁹
- 2.17 When asked whether the NBN Co had a moral or legal obligation to meet the NBN rollout targets outlined in its revised corporate plan, the NBN Co stated:
- I do not think that we have a legal requirement. I can check with our lawyers on this one, but I do not think so.¹⁰

9 NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 2.

10 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 24.

2.18 Further, during the Third Review the NBN Co stated that it was 'neither reasonable, nor valid to compare NBN Co's performance with the deployment forecasts that were included in the December 2010 corporate plan.' The NBN Co stated:

... it is neither reasonable nor valid to compare NBN Co's performance with the deployment forecasts that were included in the December 2010 corporate plan. However, it is perfectly legitimate to measure NBN Co's performance against the announcements we have made in our 12-month and three-year rollout schedules. We are ready to be measured and held accountable for our performance versus what we have committed to in those rollout schedules, but I would also like to be clear that, if there are any future policy changes, the assumptions in the corporate plan we are about to submit may have to change.¹¹

NBN Co Corporate Plan 2011-2013

Table 2.1 Premises Passed or Covered (incremental year on year)¹²

	FTTP Brownfields	FTTP Greenfields Build	FTTP Greenfields BOT	Satellite First Release	Wireless	Total
June 2011	13 000	-	45 000	165 000	-	223 000
June 2012	132 000	7000	120 000	-	14 000	273 000
June 2013	805 000	63 000	84 000	-	269 000	1 221 000
Total	950 000	70 000	249 000	165 000	283 000	1 717 000

11 Mr Quigley, NBN Co, Transcript of Evidence, Sydney, 16 April 2012, pp 47-48.

12 NBN Co, *Corporate Plan 2011-2013*, December 2010, Exhibit 1.1, p. 15.

New NBN Co Corporate Plan 2012-2015

Table 2.2 Premises or Lots Passed or Covered (cumulative year-on-year)¹³

2012-15 CP					
Premises or Lots Passed*/Covered YoY					
	FTTP Brownfields	Fixed wireless and satellite	Subtotal brownfields and fixed wireless and satellite	FTTP Greenfields**	Total
FY2011	18 000	165 000	183 000	-	183 000
FY2012	29 000	174 000	203 000	10 000	213 000
FY2013	286 000	320 000	606 000	55 000	661 000
FY2014	1 129 000	374 000	1 503 000	178 000	1 681 000
FY2015	2 499 000	752 000	3 251 000	413 000	3 664 000
FY2016	3 862 000	907 000	4 769 000	763 000	5 532 000

*Greenfields in new developments: lots passed may not equal premises passed depending on developer's timeframe to build.

**FTTP Greenfields are demand-driven activities which are subject to variations in housing starts and Developer activities (supply of new premises and demand from new developers for NBN Co to install fibre).

NBN Co Corporate Plan 2011-2013

Table 2.3 Premises with Active Service (incremental year on year)¹⁴

	FTTP Brownfields	FTTP Greenfields Build	FTTP Greenfields BOT	Satellite First Release	Wireless	Total
June 2011	-	-	35 000	-	-	35 000
June 2012	5000	5000	92 000	13 000	1000	116 000
June 2013	255 000	55 000	64 000	20 000	25 000	419 000
Total	260 000	60 000	191 000	33 000	26 000	570 000

13 NBN Co, *Corporate Plan 2012-2015*, December 2010, Exhibit 5-1, p. 36.

14 NBN Co, *Corporate Plan 2011-13*, December 2010, Exhibit 1.2, p. 15.

New NBN Co Corporate Plan 2012-2015

Table 2.4 Premises with Active Service (cumulative year on year)¹⁵

2012-15 CP					
Premises or Lots Passed*/Covered YoY					
	FTTP Brownfields	Fixed wireless and satellite	Subtotal brownfields and fixed wireless and satellite	FTTP Greenfields*	Total
FY2011	600	200	800	-	800
FY2012	3000	10 000	13 000	500	13 500
FY2013	44 000	38 000	82 000	10 000	92 000
FY2014	420 000	64 000	484 000	67 000	551 000
FY2015	1 311 000	100 000	1 411 000	204 000	1 615 000
FY2016	2 559 000	145 000	2 704 000	477 000	3 181 000

*FTTP Greenfields are demand-driven activities which are subject to variations in housing starts and Developer activities (supply of new premises and demand from new developers for NBN Co to install fibre).

Delay in NBN Rollout Commencement

2.19 The NBN Co 2012-2015 Corporate Plan includes adjustments that have been made in regard to the stated nine month delay in the NBN rollout.¹⁶ The NBN Co outlined these delays and stated:

There were a number of reasons, one of which was the ACCC decision on the points of interconnect. They moved from 14, which we had based our network on and designed it for, to 121. That required a rejig of the network – quite a substantial one. We had anticipated getting the national duct data in June. We got it the following March. Of course, the construction contracts themselves took a bit longer for us to negotiate because we terminated a process and went into a new process to make sure that we get value for money for the Australian taxpayer. I have to also say that the issues we talked about with addresses were also quite a task to undertake. We also took on board, on 1 January 2011, the

15 NBN Co, *Corporate Plan 2012-2015*, August 2012, Exhibit 5-2, p. 36.

16 These reasons are outlined in Chapter 1 of the report on page 1.

greenfields requirement – and I have some information because I know the committee is interested in greenfields, but it looks like we are out of time to do that – and that was quite a substantial undertaking.¹⁷

2.20 The ACCC commented on its role in the consideration of the Telstra Structural Separation Undertaking (on which the Telstra Agreement relied for finalisation) and the perception that the ACCC had contributed to the delay in the NBN rollout commencement. The ACCC stated:

...any delay that I have heard potentially attributed to us was potentially the delay in approving the Telstra structural separation undertaking. That took us six and a half months to approve. My understanding was the original NBN timetable meant that that would all be settled by the middle of 2011. As it happened, it never came to us until the end of July, so we never even had it. To have even approved it in one month would have meant that we would have had to just close our eyes and sign. In fact, because we were trying to get interim equivalence and transparency, it was necessarily a complicated issue. I can understand that NBN were forecasting on the basis of an agreement that actually had to be settled between the ACCC and Telstra. So they may have found that hard to judge. I think the key delay was the negotiations between NBN and Telstra. Our role necessarily was always going to take an amount of time – whether that was four, five, six or nine months. These things do take time. I do not think we contributed to the delay at all.¹⁸

2.21 The NBN Co clarified the events that lead to the delay in the commencement of the NBN rollout and stated:

We are not suggesting that the ACCC contributed to the delay. We anticipated in December 2010 that we would have reached agreement and could start using the national duct data from Telstra – which we need to do all the things that [have been] spoken about – by June 2011. That was probably optimistic. We underestimated the length of time and the complexity of reaching final agreement with Telstra and we also did not anticipate the fact that the deal could not commence until after the Telstra [structural separation undertaking] SSU, nor how long that would take. It did

17 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 23.

18 Mr Rod Sims, Chairman, ACCC, Transcript of Evidence, Canberra, 14 August 2012, p. 2.

not occur until March [2012], so we could not get the national duct data until then. So we could not do the design process that we talked about earlier.¹⁹

National Broadband Network Rollout Progress

Progress over the Reporting Period

- 2.22 The Performance Report, similarly to previous reports included the progress information on the NBN rollout over the period from 1 January to 30 June 2012, in addition to developments contributing to the NBN rollout covering the three month period from 1 July to 1 October 2012.
- 2.23 The key statistical results for the NBN rollout in the reporting period are listed in Table 2.5. For the purposes of comparison and to facilitate identification of progress, results are presented alongside the NBN Co Corporate Plan 2012-2015 targets.

¹⁹ Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, pp 22-23.

Table 2.5 Key Results of the National Broadband Network Rollout for the six month period ended on 30 June 2012 (Construction commenced and Premises Passed/Covered)

Cumulative Metrics	NBN Co 2012-2015 Corporate Plan Targets (p. 36)	Cumulative current half year as at 30 June 2012	Cumulative previous half year as at 31 Dec 2011
Construction Commenced²⁰			
Brownfields		280 142	77 357
New Development Lots		13 885	12 723
Fixed Wireless and Satellite		7062	1952
Premises passed (PP)/covered			
Brownfields	29 000	28 860	18 243
New Development Lots	10 000	10 054	951
Fixed Wireless and Satellite	174 000	173 885	165 000
Total PP (across the three technologies)	213 000	212 799	

Source Shareholder Ministers' Performance Report, Submission 13, p. 5.

2.24 For Premises passed/covered, the half year results show that the NBN Co achieved for:

- Brownfields – 28 860 premises passed/ covered which is just below the target of 29 000.
- New development lots or greenfields - 10 054 lots passed/covered which slightly exceeds the target of 10 000 lots.
- Fixed wireless and satellite – 173 885 premises passed/ covered which is just below the target of 174 000 premises.

2.25 Table 2.5 contains a comparison of the totals (across the three network technologies) for the six month period ended 30 June 2012 and shows

20 Construction commenced represents contract instructions have been issued together with the initial Network Design Document so that construction partners can commence work on the detailed design, field instructions and rodding/roping activities in a Fibre Serving Area Module (FSAM). This is followed by the release of a rollout map for the FSAM on the NBN Co website showing the coverage areas for that FSAM and the estimated number of premises to be passed/covered. Shareholder Ministers, 'Performance Report to 30 June 2012, Submission 13, p. 5.

the NBN Co is just below its total target of premises passed/ covered (213 000), with 212 799 premises covered.²¹

Table 2.6 Key Results of the National Broadband Network Rollout for the six month period ended on 30 June 2012 (Premises Activated)

Cumulative Metrics	NBN Co 2012-2015 Corporate Plan Targets (p. 36)	Cumulative current half year as at 30 June 2012	Cumulative previous half year as at 31 Dec 2011
Premises Activated (PA)			
Brownfields	3000	3364	2095
New Development Lots	500	503	110
Fixed Wireless and Satellite	10 000	9669	2197
Total PA (across the three Technologies)	13 500	13 536	

2.26 As shown in Table 2.6, for Premises Activated, the half year results show that the NBN Co achieved for:

- Brownfields - 3364 premises activated which exceeds the target of 3000.
- New development lots or greenfields - 503 lots activated which slightly exceeds the target of 500 lots.
- Fixed wireless and satellite - 9669 premises activated which is just below the target of 10 000 premises.

2.27 Comparison of totals (across the three network technologies) for the six month period ended 30 June 2012, shows that while the NBN Co is just below its total target of premises activated for fixed and wireless, overall, the NBN Co has exceeded its target (13 500), with 13 536 premises activated.²²

21 The NBN Co targets for premises or lots passed/covered are rounded to the nearest thousand. NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

22 The NBN Co targets for premises activated are rounded to the nearest thousand where number of premises or lots exceeds 1000. NBN Co, *Corporate Plan 2012-2015*, August 2012, p. 36.

Current Progress

2.28 The Government's Performance Report also includes an update on events that have occurred since the reporting period from 1 July to 1 October 2012.

2.29 The key announcements and events identified in the Performance Report are listed in Table 2.7.

Table 2.7 Key National Broadband Network Rollout Events from 1 July 2012 to 1 October 2012

Date (2012)	Event/Announcement
3 - 12 July	NBN Co announces local government areas in NSW and Qld to receive fixed wireless services from mid to late 2013
12 July	<ul style="list-style-type: none"> NBN Co published its Network Extension Program NBN Co announces ViaSat - Carlsbad, California selected to provide ground systems for Long Term Satellite Service
19 July	Optus Agreement authorised by ACCC
8 August	NBN Co's new Corporate Plan released
9 August	Opening of expanded Prysmian fibre manufacturing facility in Dee Why, NSW
16 August	Report released - Operation of the <i>Freedom of Information Act 1982</i> and its application to NBN Co held documents
24 August	Ceduna, SA selected as fourth satellite ground station location
4 September	NBN Co released 'NBN for Business' a publication to assist small business 'to make the most of high speed broadband'
6 September	<p>Silcar and Service Stream are announced as the NBN network maintenance and installation providers over the next two years</p> <p>NBN fixed wireless services are made available in Geraldton, WA</p>
19 September	Opening of NBN Co's National Contact Centre at Varsity Lakes, Qld
28 September	<ul style="list-style-type: none"> NBN Co lodges its revised Special Access Undertaking with the ACCC Telecommunication providers are now able to use NBN's Multicast feature
1 October	Geraldton, Carnarvon and Kalgoorlie, WA selected as location for three new satellite ground stations

Source Shareholder Ministers' Performance Report, Submission 13, pp 4-5.

Planned Progress

Table 2.8 Deployment Schedule for 2012-2015 Corporate Plan²³

Deployment Schedule from FY 2011 to FY2021											
June YE	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brownfields Premises Passed (000's)	18	29	286	1129	2499	3862	5168	6423	7610	8879	10091
BF Premises passed Daily Run Rate (250 working days/year)	73	42	1028	3372	5482	5450	5225	5020	4746	5078	4847
Greenfields Premises Passed (000's premises)	-	10	55	178	413	763	1111	1415	1673	1904	2111
GF Premises Passed Daily Run Rate (250 working days/year)	-	40	179	492	941	1400	1392	1215	1033	922	829
Fibre Premises Passed (000's Premises)	18	39	341	1307	2912	4625	6279	7838	9283	10 783	12 202
Fibre Premises Passed Daily Run Rate (250 working days/year)	73	83	1207	3864	6423	6850	6617	6235	5780	6001	5677
Brownfields Premises Connected (000's)	1	3	44	420	1311	2559	3566	4578	5468	6195	6939
BF Premises connected Daily Run Rate (250 working days/year)	3	11	161	1504	3565	4991	4029	4047	3562	2908	2976
Greenfields Premises Connected (000's premises)	-	1	10	67	204	477	775	1017	1227	1412	1574
GF Premises Connected Daily Run Rate (250 working days/year)	-	2	40	227	548	1092	1189	968	841	740	649
Fibre Premises Connected (000's Premises)	1	4	54	487	1515	3036	4341	5594	6695	7607	8513
Fibre Premises Connected Daily Run Rate (250 working days/year)	3	13	201	1731	4114	6083	5218	5016	4403	3648	3624
Fixed Wireless and Satellite Premises Covered (000's Premises)	165	174	320	374	752	907	921	934	948	961	974
Fixed Wireless and Satellite Premises Connected (000's Premises)	0	10	38	64	100	145	161	191	206	219	232
Total Premises Connected - All Platforms (000' Premises)	1	14	92	551	1615	3181	4502	5785	6901	7827	8745

23 NBN Co, *Corporate Plan 2012-2015*, August 2012, Exhibit 5-3, p. 37.

- 2.30 Table 2.8 shows the NBN Co's planned deployment schedule for 2012-2015 for brownfields, greenfields, and fixed wireless and satellite - premises passed, daily run rates, and premises connected.
- 2.31 By the end of 2012, as shown in Table 2.8, 14 000 premises are planned to be connected across all platforms of the NBN, with this number increasing exponentially to 92 000 by the end of 2013.
- 2.32 In a statement made in relation to NBN rollout data for the six month period ended on 31 December 2012, the NBN Co stated that it expected NBN rollout to be 'ramped up' in the fourth quarter of the 2012-2013 financial year. The NBN Co stated:
- The results reflect progress in the early stages of the rollout, and are what we would expect given the time and work necessary to put in place the contracts and agreements needed to get to this point of execution. As can be seen by our targets, this rollout is not a linear progression, but a rapid ramp-up. We are targeting to pass more premises in the final quarter of the financial year than we will have passed in the entire project up to the beginning of that quarter. Additional construction resources will be added over the coming months to help achieve these targets.²⁴

NBN Co's Unaudited Financial Results

- 2.33 The Shareholder Ministers' report contains unaudited consolidated financial statements for the NBN Group for the six month period and financial year ended on 30 June 2012.
- 2.34 As these statements are unaudited they were not accompanied with an auditor's statement or explanatory notes verifying their non qualification and accuracy respectively.
- 2.35 When asked about why unaudited financial results instead of audited financial statements were included in the Performance Report, the NBN Co stated:
- That is what I would have to refer to the department. This is the Government's report, so I would have to refer it to them.²⁵

24 NBN Co, 2013, 34 500 Australian homes and businesses now using the NBN, media release, 29 January.

25 Mr Robin Payne, Chief Financial Officer, NBN Co, Transcript of Evidence, Canberra 30 October 2012, p. 24.

2.36 The Department of Broadband, Communications and the Digital Economy (DBCDE) subsequently responded that:

The Government's progress reports on the National Broadband Network cover six monthly periods to 30 June and 31 December and are based on information provided by NBN Co.

The financial statements contained within the government's progress reports are not subject to the same auditing arrangements as those applied to annual reports. While NBN Co's annual report had been tabled by the time of the 30 October Joint Committee hearing, preparation of the government's progress report was undertaken separately and was therefore appropriately marked as unaudited.²⁶

2.37 In the absence of accompanying explanatory and verification documents, supporting financial information and some information has been taken from the NBN Co 2012 Annual Report and some from the Performance Report.

Equity Funding

2.38 Over the six month period the Government provided \$350 million in equity funding to the NBN Co.²⁷ In reference to equity funding provided, the NBN Co Annual Report states:

To the extent that the Commonwealth has provided for equity funding in forward budget estimates, NBN Co has recorded this as expected equity funding in the Schedule of Commitments. The expected equity funding to the company as at 30 June 2012 is \$24.668 billion. As at 30 June 2012 a total of \$2.832 billion has been made available to the [NBN Co].²⁸

2.39 The current Equity Funding Agreement between NBN Co and the Government was capped at \$27.5 billion with reference to the NBN Co Corporate Plan 2011-2013. With the release of the 2012-2015 NBN Co Corporate Plan (which contains revised targets), on 8 August 2012, total equity funding was increased by approximately \$3 billion to a total of \$30.4 billion.²⁹

26 DBCDE, Submission 14, answer to question on notice No. 88.

27 NBN Co, *Annual Report 2011-2012*, p. 101.

28 NBN Co, *Annual Report 2011-2012*, p. 101.

29 NBN Co, *Annual Report 2011-2012*, p. 101.

Financial Result

- 2.40 Over the six month period, the NBN Co experienced an operating loss of approximately \$300 million (exact amount is \$299 639 000)³⁰ with an operating loss of approximately \$520 million (exact amount is \$520 205 000) for the end of the 12-month period.³¹ This is approximately \$197 million more than for the previous year. Operational expenditure over the 12-month period to 30 June 2012 was attributed to:
- \$222 million – employment costs³² (\$119 million for previous year)³³
 - \$136 million for IT and direct telecommunications costs³⁴ (\$37 million for previous year)³⁵
 - \$89 million for outsourced technical and legal advice expenses³⁶ (\$161 million for previous year).³⁷
- 2.41 For the 2011-2012 financial year the NBN Co received revenue of approximately \$62 million consisting of telecommunications revenue (\$1.9 million), other revenue (\$19 000) and interest income (approximately \$60 million).³⁸
- 2.42 Total expenses increased from the previous year of \$355 837 million to \$589 052 million.³⁹
- 2.43 When asked how long the NBN Co expects to be in the position of experiencing an operating loss, the NBN Co stated 'that is in the corporate plan; I think it is 2019.'⁴⁰
- 2.44 The NBN Co explained the operating loss timeframe and stated:

30 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 31.

31 NBN Co, *Annual Report 2011-2012*, p. 58.

32 NBN Co, *Annual Report 2011-2012*, p. 18 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

33 NBN Co, *Annual Report 2010-2011*, p. 10.

34 NBN Co, *Annual Report 2011-2012*, p. 18 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

35 NBN Co, *Annual Report 2010-2011*, p. 10

36 NBN Co, *Annual Report 2011-2012*, p. 18 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

37 NBN Co, *Annual Report 2010-2011*, p. 10.

38 NBN Co, *Annual Report 2011-2012*, p. 58 and Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 30.

39 NBN Co, *Annual Report 2011-2012*, p. 58.

40 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 24.

NBN Co's projected cash flows are typical of large-scale infrastructure projects that require up front capital and operating expenditure to design and construct the network in order to generate revenue streams in future periods. NBN Co's revenue streams are gradually projected to build up as the network is rolled out and service providers develop their customer base of end-user premises onto the Fibre, Fixed Wireless and Satellite networks. As revenue streams gradually build up, these are projected to exceed Operating expenditure in FY2019.⁴¹

Timing of Performance Information

Government's Performance Report

- 2.45 The Government's Performance Report was received by the committee on 23 October 2012.
- 2.46 In its First Report, the committee recommended that the Government's six monthly performance report be provided to the committee:
- ... no later than three months before the committee is due to report to the Parliament.⁴²
- 2.47 Taking into consideration this timeframe, the Government's Performance Report was due to the committee by the end of September 2012.

Answers to Questions on Notice

- 2.48 In previous reports there has been substantial discussion about the delay in receiving answers to questions taken on notice by the NBN Co and the DBCDE. In addition, the quality of answers has also been commented on.
- 2.49 The committee has also commented on the pressure this has placed on it in regard to the timing of its reporting to Parliament. The committee subsequently made recommendations in this regard and has received comment through the Government's formal responses to reports.

41 NBN Co, *Submission 7.12*, Answer to Question on Notice No. 12.

42 Joint Committee on the National Broadband Network (JCNBN), August 2011, *Review of the Rollout of the National Broadband Network: First Report*, p. 22.

- 2.50 In an effort to receive answers to questions on notice to supplement the committee's hearing on 30 October 2012, the committee set an eight day timeframe for receiving answers to questions on notice.
- 2.51 In correspondence regarding the provision of answers to questions on notice from the 30 October 2012 hearing the DBCDE stated:
- The Department and NBN Co aim to deliver answers to questions on notice at the earliest opportunity and to the best extent possible will endeavour to meet the Committee's deadline. A number of responses have already been tabled with the Committee, and more will be tabled later tomorrow before the 14 November 2012 deadline.... We understand that the NBN Co will be in a position to provide a further 20 responses over the next several days and the remainder shortly thereafter.
- To assist the Committee in preparing its report, NBN Co and the Department have prioritised the questions that are relevant to the performance of the NBN in the review period to June 2013.⁴³

Concluding Comments

Key Performance Indicators

- 2.52 The tabular representation of actual results achieved for the physical NBN rollout contained in the Shareholder Ministers' performance report is not presented in a format which enables comparison with Corporate Plan targets.
- 2.53 The committee has previously commented on the type of data that should be included in the Shareholder Ministers' Performance Report to better enable comparison of data across years in line with published NBN rollout targets.
- 2.54 In particular, the committee reiterates the statements it made in the Third Report that it 'does not find it meaningful to be provided with data on how many premises have been passed or premises made active between periods or years without any kind of target or benchmark on which to compare this data.'

43 Correspondence from the DBCDE dated and received 13 November 2012.

- 2.55 In addition, the NBN Co corporate plan presents targets by financial years (covering the periods from 1 July to 30 June), not in six monthly periods as contained in the Shareholder Ministers' Performance Report.
- 2.56 In respect to this issue, the committee expects high levels of accountability and transparency from an organisation that is responsible for the design and build of Australia's largest ever infrastructure project.
- 2.57 The committee finds that the Performance Report while providing a general overview of the activities associated with the NBN rollout does not easily show which NBN rollout targets have been met over the six month period. The committee has made a recommendation in regard to this finding.

Delay of Commencement of the NBN Rollout

- 2.58 The committee has now on several occasions during the course of its reviews heard the reasons why the commencement of the NBN rollout has been delayed. Although it is stated in the new NBN Co Corporate Plan that the NBN rollout was delayed, and the rollout timeframe has been extended by six months, it is uncertain whether the NBN rollout is still subject to delay, and the extent of the impact of the previous delay.
- 2.59 The ACCC has commented that it was not responsible for any delay to the commencement of the NBN rollout as a result of its consideration of the Telstra SSU. The NBN Co has agreed with comments made by the ACCC in this regard.

NBN Co's Unaudited Financial Results

- 2.60 The Performance Report again contains unaudited financial statements with the only accompanying disclaimer-type statement being 'Unaudited financial statements are presented in the following section. Further information is available in the audited financial statements included in the 2011-12 Annual Report.'⁴⁴
- 2.61 Without an accompanying auditor's statement or accompanying explanatory notes, the accuracy of financial statements provided in the Performance Report and whether the financial statements were prepared in accordance with accounting standards, may be questioned. Where accounting standards are not followed to prepare financial statements implies that without such rigour in the process, there is more likely to be resulting errors.

44 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 27.

- 2.62 The DBCDE's response to the reason for providing unaudited financial statements in the Performance Report is not satisfactory. In particular, the DBCDE's response states that 'the financial statements contained within the Government's progress reports are not subject to the same auditing arrangements as those applied to annual reports.'
- 2.63 To then state in the Performance Report that further information is provided in the NBN Co's Annual Report is unhelpful as the two are not comparable as they were prepared using different methodologies.
- 2.64 Given that the NBN Co Annual report was released before the Performance Report was provided to the committee, there would have been no reason not to include it in the Performance Report.
- 2.65 The committee would prefer to receive audited financial statements so that results are certified and so can be verified, and has recommended this course of action.

Timing of Government's Performance Report

- 2.66 To date, through four reviews, the Government's Performance Report has not reached the committee within the three month period that the committee recommended in its First Report.
- 2.67 One week before the committee's biannual hearing with the NBN Co, originally scheduled for 8 October 2012, the committee had not yet received the Government's Performance Report.
- 2.68 The hearing was subsequently rescheduled from 8 October to 30 October 2012 to accommodate witnesses' schedules. While this timeframe would have provided additional time for the Government's Performance Report to reach the committee, the Performance Report was not received by the committee until 23 October 2012. This is four working days prior to the 30 October 2012 biannual hearing.
- 2.69 Receiving the Government's Performance Report at least three months before it is required to report to the Parliament allows the committee to undertake its oversight role without any initial delay in the review process.
- 2.70 While the committee appreciates receiving the Government's Performance Report ahead of its biannual hearing, it would be preferable for the committee to receive the Performance Report at least one month before the biannual hearing with the NBN Co is scheduled to take place. This would assist the committee in fulfilling its reporting and oversight obligations more uniformly.

Answers to Questions on Notice

- 2.71 Given the short time available for the committee to finalise its report following its rescheduled biannual hearing with the NBN Co and in an effort to receive answers to questions on notice to supplement the committee's evidence, an eight day timeframe for receiving answers to questions on notice was put in place.
- 2.72 The committee appreciates that this timeframe was relatively short and appreciates the efforts of the NBN Co and DBCDE to provide answers to questions on notice within this timeframe.
- 2.73 Receiving answers to questions on notice in this short timeframe has enabled the committee to meet its reporting obligations and provide more up to date information on the NBN rollout to the Parliament and interested citizens.

Recommendation 1

- 2.74 **The committee recommends that the key performance indicator information presented in the Shareholder Ministers' six-monthly National Broadband Network (NBN) Performance Report list and detail: (1) established Business Plan targets and (2) actual results which track the progress of the NBN rollout over each six month period as well as yearly, to enable the comparison of actual physical NBN rollout results with published NBN Co Corporate Plan targets.**

Recommendation 2

- 2.75 **The committee recommends that the Shareholder Ministers' six monthly performance report on the progress of the National Broadband Network rollout include audited financial statements with accompanying explanatory notes, and where it is not possible to provide these in the first instance, that they be forwarded to the Joint Committee on the National Broadband Network when prepared, as an addendum to the Performance Report.**

Recommendation 3

- 2.76 **The committee recommends that subsequent Shareholder Ministers' six monthly performance report on the progress of the National Broadband Network rollout be provided to the committee no less than one month before the scheduled biannual hearing with the Joint Committee on the National Broadband Network.**

Regulatory and Pricing Issues

Introduction

- 3.1 The Shareholder Ministers' Six Monthly Performance Report (the Performance Report) provides an update of the regulatory matters facilitating and associated with the National Broadband Network (NBN) rollout for the period ended on 30 June 2012.
- 3.2 These matters include an update on the binding definitive agreements with the Telstra Corporation (Telstra) and SingTel Optus Pty Ltd (Optus), the NBN Co Limited (NBN Co) Special Access Undertaking (SAU) and Wholesale Broadband Agreement (WBA). In addition, general pricing issues are discussed.

Binding Definitive Agreements with Telstra and Optus

Telstra Agreement

- 3.3 The broad terms of the Binding Definitive Agreement between the NBN Co and Telstra (the Telstra Agreement) were outlined in the Second and Third Reports. With the ACCC's approval of the Telstra Structural Separation Undertaking and accompanying draft customer migration plan, the final conditions precedent were met and the Telstra Agreement came into force on 7 March 2012.¹

¹ For an overview of the process and negotiations undertaken to arrive at the Telstra Agreement see JCNBN Second Report, Chapter 3, November 2011 and Third Report, Chapter 3, June 2012.

- 3.4 The Telstra Deal is now in its implementation stage with the following ‘key milestones’ achieved over the period covered in the Performance Report:
- ‘Delivery of the Transit schedule with 142 exchanges and 99 dark fibre links handed over at the end of June 2012.’
 - ‘Significant work has been undertaken in relation to Network Design Documents and detailed processes developed.’
 - ‘In conjunction with Telstra, NBN Co has updated its design rules to reduce excess remediation and to reduce the amount of augmentation required.’²

Optus Agreement

- 3.5 The ACCC issued a final determination on the \$800 million Binding Definitive Agreement between the NBN Co and SingTel Optus Pty Ltd (Optus Agreement) on 19 July 2012.³ With the conditions precedent to the Optus Agreement being met, the agreement came into force. The NBN Co 2012-15 Corporate Plan now incorporates the financial impact of the Optus Agreement.

Australian Competition and Consumer Commission Review

- 3.6 The ACCC stated that its determination on the Optus Agreement was ‘an extremely difficult decision’, but that it had ‘made the right decision.’⁴
- 3.7 In making its determination in reference to the Optus Agreement, the ACCC stated that it weighed up the benefits and the detriments of the authorisation in regard to the impact on competition. The ACCC explained:

...we have to weigh the benefits with the detriments, under the authorisation test. Is there a net benefit from the arrangement? Normally, whenever a party in this situation as it were buys out its main competitor, the detriments are enormous in terms of price competition, non-price competition and dynamic effects from both the player that is still there and the one that is coming, but here it is very difficult for NBN to respond, because they have to provide a universal price and service across the country. So you lose a lot

2 Shareholder Ministers, ‘Performance Report to 30 June 2012’, *Submission 13*, p. 7.

3 NBN Co, *Corporate Plan 2012-2015*, 6 August 2012, p. 31; ACCC, <www.accc.gov.au>

4 Mr Rod Sims, Chairman, ACCC, Transcript of Evidence, Canberra, 14 August 2012, p. 5.

of the dynamic response from NBN. Then, from Optus' point of view, we judged they were not going to roll out the HFC any further. I think it really is quite clear that, under the legislation, they have no incentive to do that. And the amount they would need to invest to match the higher level services is something that, again, we judged they would not do. So it is a very unusual situation. If you look at it from Optus's point of view, one way to look at this is: if the NBN had been rolled out as an open access network first, if that was the first investment made, would Optus subsequently want to invest in an HFC? I doubt they would, because this is an open access fibre network. Optus is making those judgements all the time about whether they would compete against something that has been overbuilt against them. It is a very unusual situation.⁵

Access Pricing

NBN Co's Special Access Undertaking

- 3.8 On 5 December 2011, the NBN Co voluntarily lodged a Special Access Undertaking (SAU)⁶ with the Australian Competition and Consumer Commission (ACCC) for review.⁷ Following receipt of the SAU, the ACCC began its legislatively required consideration process (which includes industry consultation).⁸
- 3.9 As a result of the ACCC's process, and subsequent discussions with the NBN Co, on 20 June 2012, to 'address issues raised by Access Seekers and the ACCC' the NBN Co released a document containing its revised approach to the SAU.⁹

5 Mr Sims, ACCC, Transcript of Evidence, Canberra, 14 August 2012, p. 3.

6 The SAU will cover key price and product aspects of access to NBN Co's fibre, wireless and satellite networks as well as a number of non price terms and conditions over a 30-year period (until 2040) with a mid-term review, JCNBN, November 2011, Second Report, p. 51 and JCNBN, June 2012, Third Report, p. 47.

7 ACCC, 2012, ACCC Commences Public Consultation on NBN Co Special Access Undertaking, media release, 20 December.

8 The ACCC considers the NBN Co SAU under the criteria set out in section 152CBD of the Competition and Consumer Act 2010, ACCC, <www.accc.gov.au>

9 This document contains 'high level design principles for the proposed incentive based modular SAU', NBN Co, *NBN Co Corporate Plan 2012-2015*, 6 August 2012, p. 31.

- 3.10 In anticipation of receiving a revised SAU and to allow the NBN Co to develop its revised SAU approach, the ACCC suspended its consideration of the NBN Co's original SAU.¹⁰
- 3.11 Following the release of the revised approach document, subsequent industry feedback and ongoing discussion with the ACCC, on 7 September 2012, the NBN Co withdrew its original SAU. Withdrawal of the NBN Co SAU meant the ACCC would not have to make a decision on the SAU by 12 September 2012 as legislatively required.¹¹
- 3.12 The NBN Co stated in its Corporate Plan that it expected to lodge its revised SAU with the ACCC in advance of finalisation of its Wholesale Broadband Agreement.¹²
- 3.13 On 28 September 2012, NBN Co Limited and NBN Tasmania Limited lodged a revised SAU with the ACCC. The ACCC then commenced its consideration of the SAU under the criteria set out in section 152CBD of the *Competition and Consumer Act 2010* which included an industry consultation process.¹³
- 3.14 This process was restarted with the NBN Co's withdrawal of the revised SAU and the lodgment of a new SAU and accompanying documents, with the ACCC on 18 December 2012. The new SAU 'includes amended non-price terms which NBN Co states have arisen out of the now concluded Contract Development Process' ...and...'some other amendments which NBN Co states clarify the operation of the SAU.'¹⁴
- 3.15 The ACCC was to release a draft decision on the original SAU by mid-March 2013¹⁵, which has now changed with the lodgment of the second revised SAU. The ACCC is required to make its decision on the SAU within six months of its receipt. If the ACCC has not arrived at a decision within this timeframe, the SAU would be deemed to be accepted.¹⁶

10 ACCC, 2012, ACCC Suspends Assessment of NBN Co Special Access Undertaking, media release, 20 June; Mr Sims, ACCC, Transcript of Evidence, Canberra, 14 August 2012, p. 11; NBN Co, *Corporate Plan 2012-2015*, 6 August 2012, p. 31.

11 ACCC, 2012, NBN Co Withdraws Special Access Undertaking, media release, 11 September.

12 NBN Co, *Corporate Plan 2012-2015*, 6 August 2012, p. 31.

13 On 12 November 2012, the ACCC released its first consultation paper on the revised NBN Co SAU, to be followed by a stakeholder forum in December. Submissions to the ACCC's consultation were due by 11 January 2013. ACCC, 2012, ACCC commences first public consultation on NBN Co Special Access Undertaking, media release, 12 November, p. 2.

14 ACCC, NBN Co Special Access Undertaking (December 2012), www.accc.gov.au

15 ACCC, NBN Co Original Special Access Undertaking (December 2011), www.accc.gov.au

16 'This timeframe is subject to its ability to extend this period and periods which are discounted from the assessment timeframe such as when the ACCC is consulting on the SAU, or NBN Co

Wholesale Broadband Agreement

- 3.16 Under the SAU, the NBN Co is required to 'ensure that its Standard Form of Access Agreement (including the Wholesale Broadband Agreement) remains aligned with the SAU.'¹⁷
- 3.17 The Wholesale Broadband Agreement (WBA) is a standard form of access agreement (SFAA) or contract between a RSP which outlines 'the complete terms and conditions of access to all of the services and products being provided over' the NBN's 'fibre, wireless and satellite networks.'¹⁸
- 3.18 Following a ten-month industry consultation and several versions of the document on 30 November 2011, the NBN Co released its WBA.
- 3.19 With the absence of an approved SAU, the ACCC raised concerns about the initial five-year term of the WBA. As the SAU would set the framework under which the WBA could be entered into, without the SAU, RSPs would not have recourse to the ACCC if required.¹⁹
- 3.20 On the ACCC's advice and without an approved SAU, the NBN Co revised the term of its WBA to only 12 months.
- 3.21 As at 30 June 2012, 41 RSPs (or Access Seekers) have signed the WBA. Those RSPs that have signed a WBA with the NBN Co constitute over 94 per cent of market participants in the fixed broadband market.²⁰
- 3.22 In the same vein as the WBA, the NBN Co has also released the Wireless Trial Agreement, the Interim Satellite Services Agreement, the Satellite Wholesale Broadband Agreement and Testing Terms and Conditions all as SFAAs. Twelve RSPs have signed onto the Interim Satellite Services Agreement and 16 RSPs have signed the Fixed Wireless Trial Agreement.²¹
- 3.23 On 20 June 2012, when it announced its suspension of the assessment of the NBN Co SAU, the ACCC stated its expectation that:

is responding to any Notice to vary, issued to it.' ACCC, NBN Co Special Access Undertaking (December 2012), www.accc.gov.au

17 NBN Co, *Corporate Plan 2012-2015*, 6 August 2012, pp 31-32.

18 NBN Co, *Corporate Plan 2011-2013*, pp 106-107.

19 JCNBN, November 2011, *Review of the Rollout of the National Broadband Network: Second Report*, p. 56.

20 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 11.

21 NBN Co, *Corporate Plan 2012-2015*, p. 31.

...the regulatory framework established by the SAU should be in place prior to the execution of longer term Access Agreements between NBN Co and access seekers.²²

3.24 On 12 November 2012, with the release of its industry consultation paper on the SAU, the ACCC reiterated that:

...it expects parties to agree to short term arrangements for the continuing supply of NBN Co's services until assessment of the undertaking concludes and the regulatory framework is established.²³

3.25 The NBN Co is continuing to engage with industry:

...regarding the further enhancement of the WBA, via the Contract Development Process (CDP) set out in the WBA itself.²⁴

3.26 The CDP has over the period made 'substantial progress... in relation to... the terms and structure of the WBA and its interaction with the SAU, intellectual property and confidential information and an appropriate approach to service levels including the development of service levels over time.'²⁵

3.27 Given the expected finalisation, lodgement and assessment of the revised SAU, the ACCC stated 'that NBN Co and access seekers will need to agree upon interim contractual arrangements.'²⁶

3.28 In its new Corporate Plan, the NBN Co provides scope for the extension of an interim WBA by mutual agreement between itself and an RSP.²⁷ Following lodgement of the revised SAU the NBN Co 'proposed to its customers that current agreements be extended while the ACCC considers the revised SAU.'²⁸

3.29 Later, the NBN Co confirmed that the current WBA has been extended until the earlier of either 30 April 2013 or a month after the SAU is accepted. The NBN Co stated:

22 ACCC, 2012, ACCC Suspends Assessment of NBN Co Special Access Undertaking, media release, 20 June, p. 2.

23 ACCC, 2012, ACCC commences first public consultation on NBN Co Special Access Undertaking, media release, 12 November, p. 2.

24 NBN Co, *Corporate Plan 2012-2015*, p. 31.

25 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 22.

26 ACCC, 2012, ACCC Suspends Assessment of NBN Co Special Access Undertaking, media release, 20 June, p. 2.

27 NBN Co, *Corporate Plan 2012-2015*, p. 31.

28 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 22.

The majority of customers have now extended the current WBA, until the earlier of 30 April 2013 or a month after the SAU is accepted. Only a couple of customers are yet to return the extension documentation to NBN Co, but are expected to do so shortly.²⁹

- 3.30 The NBN Co also stated that the final WBA is expected to be finalised by the end of November 2012 and will be made available to NBN Co customers when the SAU has been accepted. The final WBA will have a two-year term. The NBN Co stated:

NBN Co is planning to finalise its next Wholesale Broadband Agreement (WBA) at the end of November 2012. The next WBA will be available for execution by customers when the Special Access Undertaking (SAU) has been accepted, and will have a term of 2 years. Having the next WBA finalised shortly will give NBN Co and its customers certainty to prepare for its implementation, and also facilitate the SAU assessment process (as the SAU, once accepted, and the next WBA will operate together).³⁰

Impact of Access Price

- 3.31 The impact of the CVC³¹ price (or access pricing for RSPs) on the retail prices offered for broadband consumers (or end users) has been raised as an issue since the committee's First Review.
- 3.32 An NBN Co comparison between wholesale pricing offered by Telstra ADSL versus NBN Co shows that the NBN Co is offering cheaper wholesale pricing.³² The information contained in the NBN Co Corporate Plan 2012-2015 is reproduced in Table 3.1.

29 NBN Co, *Submission 7.8*, Answer to question on notice No. 19.

30 NBN Co, *Submission 7.8*, Answer to question on notice No. 19.

31 Connectivity Virtual Circuit 'is an aggregation of the bandwidth allocated to the end user premises and the point of interconnect' to the NBN. NBN Co Corporate Plan 2011-2013, pp 151-152.

32 NBN Co, *Corporate Plan 2012-2015*, p. 60.

Table 3.1 Comparative Wholesale Pricing between the National Broadband Network and Telstra

	Telstra Proposed Wholesale ADSL Pricing (\$) January 2012	ACCC Interim Access Determination (\$) February 2012	NBN 25/5 Pricing (\$) December 2011
Zone 1	30	25.40	27
Zone 2/3	37	30.80	27
AGVC/CVC (per Mbps)	55	40.50*/33.65**	20

*until 31 June 2012

**from 1 July 2012

Source NBN Co Corporate Plan 2012-2015, Exhibit 7-11: Comparative Wholesale Pricing NBN vs. Telstra, p. 60.

3.33 The NBN Co 2012-2015 Corporate Plan also states that the NBN Co expects 'to reduce CVC prices as traffic across the network increases over time.'³³ However, the NBN Co stated that it cannot prevent any price rises being directly passed onto the consumer. The NBN Co stated:

We deal with wholesale prices. We have agreed in the SAU that we are holding prices fixed for the first five years of the SAU, but we cannot make any guarantees. But we are expecting the market to operate at the retail level....We will drive wholesale prices down.³⁴

3.34 The ACCC commented that the price of the CVC charge should fall over time, but that NBN Co's revenue (from CVC pricing) may still increase. The ACCC explained:

It is a very live issue what the trend rates are going to be in the CVC charges over the life of the SAU. NBN Co has recently said it accepts that the price per unit of CVC charges should come down over time. That does not mean that revenues cannot increase because you get more for less, basically, or more for more but at a lower price per unit. What those CVC charges end up at and what the trend rate over time is will be relevant to the margin for retailers in the provision of services.³⁵

3.35 In relation to CVC pricing, as part of its consideration of the NBN Co SAU, the ACCC is seeking consumer and industry views on:

The commitments around NBN Co's proposed 'usage' based charge (the 'connectivity virtual circuit), and in particular its implications for how NBN Co's customers and end-users take up

33 NBN Co, *Corporate Plan 2012-2015*, p. 67.

34 Mr Mike Quigley, CEO, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, pp 23-24.

35 Mr Ed Willett, Commissioner, ACCC, Transcript of Evidence, Canberra, 14 August 2012, p. 11.

services and for NBN Co's ability to recover the costs of its investments.³⁶

3.36 Further, the ACCC has stated that it:

... will consider whether more binding pricing commitments to lower the usage based charge are required.³⁷

Concluding Comments

Optus Agreement

3.37 The committee acknowledges the evidence it received from the ACCC on its analysis and acceptance of the Optus Agreement.

NBN Co's Special Access Undertaking

3.38 The NBN Co has revised and relodged its original SAU in response to industry feedback and ongoing negotiation with the ACCC. The committee understands that the ACCC is currently reviewing the revised NBN Co SAU and is expected to finalise its consideration of the undertaking within six months of its receipt.

3.39 In the meantime, the NBN Co has proposed to RSPs that the interim WBA agreements be extended. With the release of its NBN Co SAU consultation paper, the ACCC has also reiterated its expectation that this approach be taken by the NBN Co.

3.40 The NBN Co has stated that it has already extended its WBA with the 'majority of customers' until the earlier of either 30 April 2013 or a month after the SAU is accepted. The remaining few who are yet to return the extension documentation 'are expected to do so shortly.'

Impact of Access Price

3.41 The committee acknowledges that the NBN Co is holding prices fixed for the first five years of the SAU, will drive wholesale prices down, but that it cannot make any price guarantees at the retail service level. The ACCC explained how the CVC price is likely to fall over time. While the CVC is a determinant of the retail price offered by RSPs, and taking into

36 ACCC, 2012, ACCC commences first public consultation on NBN Co Special Access Undertaking, media release, 12 November, p. 1.

37 ACCC, 2012, ACCC commences first public consultation on NBN Co Special Access Undertaking, media release, 12 November, p. 1.

consideration the comments made by the NBN Co, it remains to be seen whether competition at the retail level will provide lower prices for consumers into the longer term. The committee believes the NBN Co and the Government have a responsibility to ensure that high speed broadband is affordable for all consumers.

Regional and Remote Issues

Introduction

- 4.1 The committee's Third Report canvassed both the opportunities and challenges facing regional and remote communities in accessing and utilising the National Broadband Network (NBN). The Fourth Report will focus on progress to date.
- 4.2 Stage 1 of the large scale fibre rollout has commenced, and will see construction commenced or completed in 1500 communities containing 3.5 million premises, including a significant number of non metropolitan localities, and a number of regional centres. Further, NBN Co Limited (NBN Co) has published its Network Extension Program, describing a process by which communities, businesses or individuals may apply for an extension of the fibre or fixed wireless network to their premises.¹
- 4.3 Finally, the interim satellite service is now in operation, and the rollout of the fixed wireless service has commenced.
- 4.4 As at 30 June 2012, 173 885 premises were passed or covered by the fixed wireless or satellite services, with 9669 premises activated.²
- 4.5 By the 2016 financial year, it is anticipated that fixed wireless and satellite services will be available to 907 000 premises and activated in 145 000 premises.³

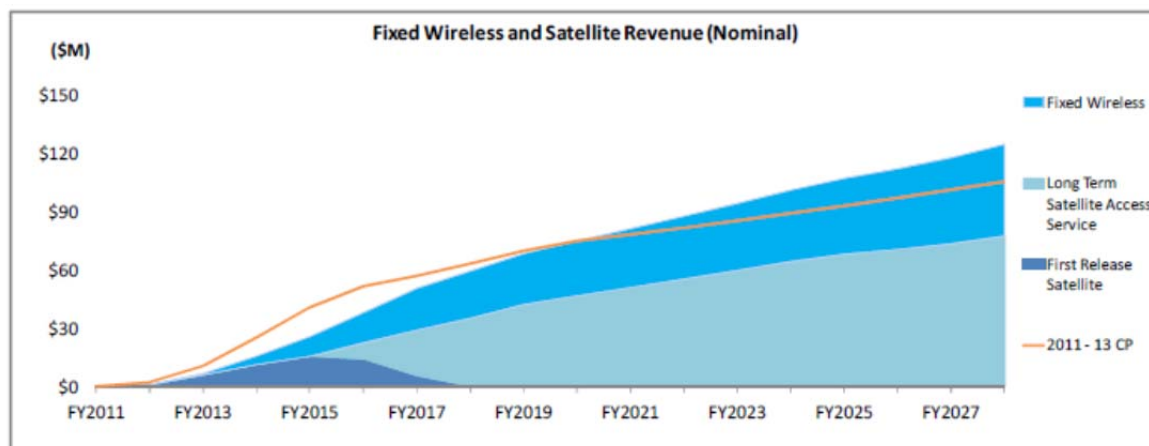
1 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 28.

2 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, pp 5-6.

3 NBN Co, *Corporate Plan 2012-2015*, p. 36.

- 4.6 NBN Co indicated that the aggregation of data for the wireless and satellite rollout was intended to provide flexibility in service provision to different localities outside the Fibre-to-the-Premise (FTTP) footprint.⁴
- 4.7 Revenue forecasts for the NBN fixed wireless and satellite services are provided in Figure 4.1.

Figure 4.1 Forecast Fixed Wireless and Satellite Revenues (\$ Million)



Source NBN Co Corporate Plan 2012–15, p. 68.

Fibre Network

Rollout Progress

- 4.8 A combination of the three NBN technologies (fibre, fixed wireless and satellite) will be rolled out to rural and regional areas of Australia. While the fibre footprint does include rural and regional areas, the last seven per cent of premises to be included under the NBN fall within the fixed wireless and satellite footprints. Fixed wireless and satellite will be 'used to reach areas of low population density that make it both difficult and expensive to build infrastructure to...premises', which 'are towns located in regional and remote Australia.'⁵ Fibre will account for 70 per cent of the NBN rollout to regional Australia.⁶
- 4.9 While the announcement of Stage 1 of the large scale fibre rollout has clarified the NBN timetable for some regional centres, others await news of when they might be connected to the NBN.⁷

4 Mr Mike Quigley CEO, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 18.

5 Joint Committee on the National Broadband Network, Third Report, p. 79.

6 Joint Committee on the National Broadband Network, Third Report, p. 80.

7 There are currently over 40 retail service providers making their services available across Australia. Shareholder Ministers' Performance Report, *Submission 13*, p. 11.

- 4.10 This has caused some concern in the Broken Hill community which, as previously reported, has a high level of interest in receiving the NBN, but which is excluded from Stage 1. Two submissions have been received requesting an accelerated rollout for Broken Hill, especially given its proximity to a main backhaul route.⁸ Another submission has highlighted the NBN needs of the Western Australian town of Esperance.⁹

Fibre and Fixed Wireless Network Extensions

- 4.11 The committee has dealt with the question of network extensions in its previous reports and tracked the evolution of NBN Co's network extension policy. In response to Recommendation 11 of the Committee's Third Report, the Government noted:

The company [NBN Co] conducted a network extension trial process in Tasmania, which informed development of the final policy. The trial's most important finding was the need for effective community consultation activities at the commencement of the rollout process in relevant areas. As such, the company has now published its Network Extension policy, and provides significant information to interested parties at NBN Company Information Sessions which are generally held at the commencement of the rollout in a particular area.¹⁰

- 4.12 The Network Extensions framework allows individuals, businesses or governments to pay the incremental cost of extension of the fibre or fixed wireless network to areas where it would not otherwise be built. Under the Network Extension Programme, premises outside the fibre footprint can apply to have NBN Co extend the fibre optic network (individual premises located in areas adjacent to the fibre footprint or large projects covering towns or groups of premises). Small towns with planned access to satellite services can apply to be connected to the fixed wireless network.¹¹
- 4.13 In regard to network extensions, NBN Co commented that while there had been considerable interest from the community and various levels of government in Network Extensions:¹²

8 Change Agent nb Pty Ltd, *Submission 2*; Regional Development Australia, Far West NSW, *Submission 3*.

9 Hon Wendy Duncan MLC, *Submission 4*.

10 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 16.

11 NBN Co, *Corporate Plan 2012–2015*, p. 32.

12 NBN Co, *Corporate Plan 2012–2015*, p. 32.

- there had not to date been a large number of applications for network extensions, and
 - that network extensions require NBN infrastructure to be in place in adjacent areas from which the extension can then be made.¹³
- 4.14 In November 2012, NBN Co advised that 68 applications to extend the footprint had been received since the launch of the Network Extension policy on 12 July 2012.¹⁴
- 4.15 Of these applications:
- One quote to extend the fibre footprint has been issued, with seven under development
 - Eleven are being assessed
 - Thirty are in future rollout areas, and therefore not requiring an extension
 - Eight were eligible for a fibre extension, but were outside of the programme's timeframe policy
 - Nine were cases where extending to the applicant's premises is not possible; and
 - Two were withdrawn by the applicants.¹⁵

Fixed Wireless Network

Background

- 4.16 The Fixed Wireless network is designed to provide high capacity broadband services for premises beyond the fibre network. NBN Co has acquired licenses to operate in the 2.3 GHz and 3.4 GHz spectrum bands from AUSTAR, and acquired spectrum in Western Australia, the Northern Territory, South Australia, outback Queensland and far west New South Wales at an auction run by the Australian Communications and Media Authority (ACMA).
- 4.17 On 1 June 2011, NBN Co signed a 10 year fixed wireless equipment supply and managed services contract with Ericsson. The first services over NBN Co's Fixed Wireless network commenced in April 2012. As at 30 June 2012,
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13 Mr Quigley, NBN Co., Transcript of Evidence, Canberra, 30 October 2012, p. 22.

14 NBN Co, *Submission 7.6*, Answer to Question on Notice No. 45.

15 NBN Co, *Submission 7.9*, Answer to question on notice No 46.

NBN Co had Construction Commenced or Completed in Wireless Serving Areas (WSAs) containing approximately 15 000 premises.¹⁶

Rollout Progress

- 4.18 The fixed wireless access service has begun to rollout. The Fixed Wireless rollout plan has been developed to take into account the availability of the Transit network, spectrum and likely community consultations for the building of new poles and towers for the Fixed Wireless network.¹⁷
- 4.19 The service was launched in Armidale, New South Wales (NSW), providing a 12 Mbps downstream and 1 Mbps upstream service.¹⁸ The service was initially offered through five Retail Service Providers (RSPs). Since launching, another seven RSPs have become accredited for the fixed wireless product. The 'Initial Release' commenced on 2 April 2012, with the trial ending on 30 September 2012. The fixed wireless network has since expanded to the regions around Armidale, Toowoomba, Tamworth, Geraldton and Ballarat.¹⁹ Design and construction work has commenced at all five sites.²⁰ Sixteen Access Seekers have signed the Fixed Wireless Trial Agreement.²¹
- 4.20 The NBN Co has signed an interim agreement with Telstra for the First Release Sites towers. This provides access for three years. It also allows for a full agreement covering volume rollout to be negotiated. The agreement supplements the other framework agreements already in place for First Release Sites with Optus, Crown Castle, SPAusnet and Prime Media Group.²²
- 4.21 The NBN Co also reported that in the period 1 January 2012 to 30 June 2012, 'an important contract milestone was achieved confirming that the fixed wireless technology meets the technical and operational requirements of NBN Co':

This enabled the first fixed wireless sites to be brought into service in Armidale. Business Readiness Testing (BRT) commenced with the initial installation and activation of Fixed Wireless Services in Armidale with three Access Seekers – APN, iiNet and

16 NBN Co, *Corporate Plan 2012–15*, p. 20.

17 NBN Co, *Corporate Plan 2012–2015*, p. 39.

18 NBN Co, *Corporate Plan 2012–2015*, p. 57.

19 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 12.

20 NBN Co, *Corporate Plan 2012–2015*, p. 39.

21 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 11.

22 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 7.

Skymesh...As at 30 June 2012, the activation of fixed wireless services was initially performed by five Access Seekers. During the period Ericsson and NBN Co have continued with planning and site acquisition activities for the volume rollout.²³

- 4.22 In July 2012, NBN Co announced that planning proposals would be lodged to deliver fixed wireless broadband in local government areas in the Central West and Mid-western regions of New South Wales and the Rockhampton, Townsville and Mackay regions of Queensland. The fixed wireless network will cover up to 54 500 premises across more than 24 local councils, subject to final radio frequency planning and other approvals.²⁴
- 4.23 In September 2012, fixed wireless services became available in Geraldton, Western Australia. Two of six NBN fixed wireless sites are now online, providing 354 homes and businesses in Geraldton with broadband speeds of up to 12 Mbps. Ultimately, around 1300 premises will be covered in Geraldton.²⁵

Satellite Network

Background

- 4.24 The NBN satellite service is designed to provide a standard internet service (12 Mbps download and 1 Mbps upload) to the 3% of Australians living outside the FTTP and wireless footprints, at the same wholesale price as FTTP and wireless services.
- 4.25 The Interim Satellite Service (ISS) is now in place and covers the entire country. Eleven Very Small Aperture Terminal (VSAT) hubs operate from Kalgoorlie, Broken Hill and Belrose.²⁶
- 4.26 The ISS acts as a transition between the Australian Broadband Guarantee (ABG) Scheme (which expired on 1 July 2011) and NBN Co's Long Term Satellite Service (LTSS) (scheduled for commercial service by mid-2015). Satellite capacity is provided by a contract between NBN Co and Optus (May 2011) to provide managed satellite services for an initial 5 year period. Another contract was signed with IPStar for additional satellite capacity.

23 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 14.

24 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, pp 27–28.

25 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 29.

26 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 14.

- 4.27 The ISS was launched on 1 July 2011 and, as at 30 June 2012, had 9578 users.²⁷ Twelve Access Seekers have signed the Interim Satellite Services Agreement.²⁸ In regard to the progress of the interim satellite service and comparisons with the ABG, NBN Co responded that:

As of just recently, we got close to 19 000 active customers on the satellite, so there are a hell of a lot of people who are ordering a service from us in terms of RSPs – satellite providers – who are obviously doing it because they think there is a profitable business there. Is it possible that they are not making as much money as they made on the ABG? That is possible. What I can tell you is the end user is getting a much better service for a competitive price...In moving from the ABG to the Interim Satellite Service it is a very good deal for the end user.²⁹

- 4.28 The NBN Co noted that the Wholesale Broadband Agreement for the interim satellite service provided that a service should be installed and activated in a customer premise 20 business days for Zone 1/2 (urban/rural) and 25 business days for Zone 3 (remote) customers after the service has been ordered from an RSP.³⁰

Rollout Progress

- 4.29 The Government's Performance Report outlines the progress on the development of the Long Term Satellite Service (LTSS). The NBN Co stated that the \$620m Spacecraft and Telemetry, Tracking and Control (TT&C) contract with Space Systems/Loral (SS/L) was executed on 7 February 2012, with delivery of the spacecraft to NBN Co for launch scheduled for the first quarter of 2015. The Spacecraft and TT&C contract progressed well during the period, with the SS/L completing a number of milestones according to plan.
- 4.30 Following the execution of the SS/L contract, ground system requirements were issued to short-listed ground segment suppliers in March for proposed pricing.³¹
- 4.31 The securing of ground station locations for the LTSS was progressed. In July 2012, NBN Co selected Woolooma near Merimbula (New South Wales Far South Coast) as the site of its first satellite ground station.

27 NBN Co, *NBN Co Corporate Plan 2012–2015*, pp 20–1.

28 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 11.

29 Mr Quigley, NBN Co., Transcript of Evidence, Canberra, 30 October 2012, p. 19.

30 NBN Co, *Submission 7.5*, Answer to Question on Notice No. 72.

31 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 14.

Further locations, the first of 10 such facilities, were identified at Bourke (NSW), Geeveston (Tasmania)³² and Ceduna (SA).³³ In October 2012, NBN Co announced that Western Australia had been selected as the location for three new satellite ground stations, with facilities near Geraldton, Carnarvon and Kalgoorlie.³⁴ Roma, Queensland³⁵ and Broken Hill, NSW have also been selected as sites.³⁶

- 4.32 In July 2012, NBN Co announced that US company ViaSat had been selected to provide LTSS ground systems. ViaSat will also supply the equipment to be installed in end user premises. The initial contract is valued at approximately AU\$280 million.³⁷
- 4.33 As at 30 June 2012 NBN Co had secured all the spectrum required for the LTSS.³⁸
- 4.34 The request for proposal for launch services was released with evaluation of responses expected in the September 2012 quarter. The planned launch date for the two satellites remains unchanged from previous forecasts, at FY2015.³⁹
- 4.35 Frequency coordination associated with the International Telecommunications Union orbital slot confirmation process also continued. NBN Co has continued active dialogue with the ACMA on the availability of further spectrum, and with owners of existing spectrum licences. As at 30 June 2012, there were 11 RSPs selling services over NBN Co's interim satellite network.⁴⁰
- 4.36 The NBN Co confirmed that they are on track in terms of cost and service implementation:

We have contracted for the spacecraft, the ground stations and 50 per cent of the VSATs, and we will, before the end of the year, contract for the launch. So our long-term satellite is coming in right where we hoped it would by the corporate plan.⁴¹

32 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, pp 14–15.

33 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 28.

34 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 29.

35 NBN Co, *Submission 7.9*, Answer to question on notice 39.

36 NBN Co, 2012, NBN Co Selects Broken Hill as Satellite Centre, media release, 15 November.

37 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, p. 28.

38 NBN Co, *Corporate Plan 2012–2015*, p. 33.

39 NBN Co, *Corporate Plan 2012–2015*, p. 39.

40 Shareholder Ministers, 'Performance Report to 30 June 2012', *Submission 13*, pp 14–15.

41 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 18.

- 4.37 The NBN Co also indicated that the expected lifespan of equipment related to the satellite service would be about 15 years for the satellites, longer for the dishes, but that people might wish to upgrade modems sooner. The NBN Co stated it was anticipated that within the 30 year life span of the project new satellites might be needed.⁴²
- 4.38 With regard to the reliability of the LTSS, NBN Co stated that the new satellites will be ‘purpose-built to minimise the technology limitations associated with current satellite services’, and that this would ‘deliver a step-change in performance for satellite users in terms of speed and reliability’. The use of two satellites ensures that in the case of satellite failure, ‘service could be maintained through a single NBN Co satellite’. User links will also incorporate the ‘ability to dynamically vary their transmission attributes (uplink power level and waveform characteristics) in order to maximise availability during degraded weather conditions.’ The NBN Co added that:

Other measures include a Disaster Recovery Gateway station which can assume full traffic loads from any of the nine primary Gateway stations, carrier class network architecture and infrastructure at the data processing and network management centres and Customer Premises Equipment that is designed to withstand the wide range of adverse conditions (temperature, dust vermin, corrosion, wind etc.).⁴³

Upgrades to Wireless and Satellite Technology

- 4.39 The 2012–15 Corporate Plan has incorporated additional costs and revenues associated with anticipated technology upgrades for Fixed Wireless and LTSS.⁴⁴ It is anticipated that both networks will continue to be upgraded to match the fibre speed tiers when the technology and costs make this possible.⁴⁵
- 4.40 In addition, NBN Co has indicated that it is working towards offering multicasting over its wireless and satellite services.⁴⁶
- 4.41 The NBN Co has also given consideration to develop mobile backhaul, although no decision has yet been made on the development of such service.⁴⁷ In response to the committee, NBN Co noted that:

42 Mr Quigley, NBN Co., Transcript of Evidence, Canberra, 30 October 2012, p. 18.

43 NBN Co, *Submission 7.8*, Answer to Question on Notice No. 41.

44 NBN Co, *Corporate Plan 2012–2015*, p. 33.

45 NBN Co, *Corporate Plan 2012–2015*, p. 38.

46 NBN Co, *Submission 7.5*, Answer to Question on Notice No. 40.

The recent increases in mobile data usage driven by smart-phones, tablet devices and other forms of wireless internet usage have created network capacity challenges for mobile providers globally. NBN Co has received requests from existing mobile service providers who see the benefit of using the high-capacity NBN fibre network to also carry traffic from mobile base-stations. Mobile providers typically connect individual base-stations to their wider network using fibre technology, and providers have requested that NBN Co also connect to these base-stations as NBN Co are constructing the fibre network in relevant areas.⁴⁸

- 4.42 The NBN Co advised that mobile backhaul would not involve NBN Co in the construction of a mobile network, but rather that the 'proposal would allow the utilisation of NBN Co's fibre infrastructure for connectivity between mobile base stations and an operator's core network'. The NBN Co is 'considering these requests and evaluating whether to develop products suitable for use as mobile backhaul'.⁴⁹

Mobile Networks

- 4.43 The NBN Co has repeatedly emphasised that it is not building a mobile telephone network and that the extension of such a service is not part of its remit.⁵⁰ Nonetheless, NBN Co has undertaken to develop a Facilities Access Policy for towers, duct and depot space, which would allow access seekers to obtain terms, prices and ordering and provisioning processes for accessing NBN Co facilities. This would allow for the co-location of mobile network equipment on NBN wireless sites.⁵¹ The NBN Co has already reached reciprocal agreements with Telstra and Optus for access to each others' facilities, including NBN Co built and owned wireless towers.⁵²
- 4.44 The costs facing mobile carriers for access to NBN Co facilities include application and project management fees, annual rental and the cost of any works required to make the facilities mobile ready. Pricing is based on market rates and reflects an annualised replacement cost.⁵³

47 NBN Co, *Corporate Plan 2012–2015*, p. 68.

48 NBN Co, *Submission 7.6*, Answer to Question on Notice No. 47.

49 NBN Co, *Submission 7.6*, Answer to Question on Notice No. 48.

50 Mr Quigley, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, pp 20 and 22.

51 NBN Co, *Submission 7.5*, Answer to Question on Notice No. 67.

52 NBN Co, *Submission 7.5*, Answer to Question on Notice No. 66.

53 NBN Co, *Submission 7.5*, Answer to Question on Notice No. 68.

Concluding Comments

Fibre Network

4.45 The committee is pleased that the first stage of the large-scale fibre rollout has commenced and in the process given certainty to some regional communities as to when they will get access to the fibre network. On the other hand, many regional communities still await news as to when the fibre network will be available to them. For these communities, the cost of making themselves NBN ready is compounded by the uncertainty of the timing of the rollout. The committee believes that an indicative schedule for completion of the network, with estimates of when the network would reach any given community, should be made publicly available to assist communities in their preparations for the NBN.

Network Extensions

4.46 The committee is also pleased to see that a framework for network extensions is now in place. The committee looks forward to future discussions with NBN Co regarding the operation, costs and achievements of this framework, especially for communities in regional and remote Australia.

Fixed Wireless Network

4.47 The committee notes the commencement of the rollout of the fixed wireless network. The committee looks forward to receiving information on the progress of the rollout, particularly with regard to network access and coverage by access seekers and RSPs.

Satellite Network

4.48 The committee has expressed concern in the past about the risks associated with satellite deployment, particularly in obtaining orbital slots. The committee will seek future evidence upon the progress of the LTSS, risk management surrounding launch and progress in obtaining orbital slots for the LTSS satellites.

Upgrades

4.49 The committee is interested in the potential for upgrades to wireless and satellite technology to improve the broadband service for regional and remote Australia. The committee looks forward to obtaining more detail from NBN Co about the potential of technology upgrades to improve the speed and capacity of access for wireless and satellite service users. The

committee is also interested in the future development of mobile backhaul, with its potential to create a higher level of integration of Australia's telecommunications systems.

Mobile Networks

- 4.50 The committee acknowledges early efforts to facilitate expansion and improvement to mobile telephony in regional and remote Australia through the co-location of mobile facilities with NBN Co infrastructure. The synergies are obvious and their promotion a step forward. The committee is of the view, however, that the opportunity to facilitate the expansion of mobile telephony, particularly in regional and remote areas, needs to continue to be explored to further capitalise on progress already made in this area.
- 4.51 In this vein, the committee has recommended that the Australian Government expand the scope of NBN Co responsibilities to continue to explore the synergies between fixed and mobile telecommunications networks with a view to using the NBN to improve mobile telecommunications as well as providing broadband services. Allowing private providers to 'piggyback' off of NBN Co infrastructure to provide mobile telephone services would be a timely and efficient use of telecommunications resources in regional and remote Australia.

Recommendation 4

- 4.52 **The committee recommends that the Government support the NBN Co to continue to:**
- **explore the synergies between fixed and mobile telecommunications networks with a view to using the National Broadband Network to improve mobile telecommunications; and**
 - **facilitate private providers use of NBN Co infrastructure to provide and improve mobile telephone services and coverage across Australia, particularly in regional and remote areas.**

Additional Issues

Medical Alarms

Background

- 5.1 The Personal Emergency Response Services Association (PERSA) and Tunstall Healthcare raised a series of issues concerning the operation of medical alarms for aged and at-risk persons under the NBN rollout – in particular:
- support for medical alarms by NBN retail service providers (RSPs) through the User Network Interface Voice (UNI-V) port service¹
 - battery back-up for NBN customer equipment in terms of medical alarm functionality²
- 5.2 By way of background, there are ‘approximately 250,000 existing medical alarms protecting aged and at-risk persons’ in Australia, in both private homes and residential aged-care facilities.³ Tunstall Healthcare has some 72,000 monitored clients in Australia, and its Brisbane emergency response centre takes over 2,000 emergency calls per day, with an average of 500 to 600 of those calls per week requiring emergency assistance.⁴ Tunstall Healthcare noted that it currently had 136 clients living in the

1 Personal Emergency Response Services Association (PERSA), *Submission 10*, p. 1, and Tunstall Healthcare, *Submission 8*, p. 2.

2 PERSA, *Submission 10*, p. 3, and Tunstall Healthcare, *Submission 8*, p. 2.

3 PERSA, *Submission 10*, p. 1.

4 Mr Gary Morgan, Health Services Director, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 1.

NBN footprint, and by June next year it estimated that 2,000 of its clients would be on the NBN.⁵

Retail Service Providers and Uni-V Port Service

- 5.3 Analogue medical alarms will be supported on the NBN via NBN Co's User Network Interface Voice (UNI-V) port, which is supported by the backup battery. Internet Protocol (IP) based medical alarms will be supported by the NBN over the User Network Interface Data (UNI-D) product. NBN Co is currently developing battery backup functionality for the UNI-D and, once this is implemented, IP-based medical alarms will also be fully supported on the NBN.⁶
- 5.4 Connectivity over the UNI-V port requires a client's RSP to support the UNI-V port service and, as PERSA noted, 'not all RSPs [are to]... support the analogue (UNI-V) port service'.⁷ Further clarifying this point, Tunstall Healthcare identified that 'less than a third' of the 'approximately 35 RSPs... who have been accepted and endorsed for the NBN' have the ability to facilitate voice calls over the UNI-V ports on the NTD.⁸
- 5.5 As not all RSPs will be supporting medical alarms through the UNI-V port service, consumers will therefore need to select an RSP providing this service. This raised concerns for PERSA and Tunstall Healthcare about how people would know which RSP to select to ensure their medical alarm continued to work under the NBN rollout.
- 5.6 For example, PERSA noted that 'typical users of medical alarms are not aware of the technical requirements of their equipment' and therefore may 'run the risk of being locked-in to a long term telecommunications contract with an RSP which, for them, is unsuitable'.⁹ Similarly, Tunstall Healthcare stated its concern that some clients 'unknowingly or unwittingly may sign up to an RSP who cannot support their medical alarm or deliver the service they require'.¹⁰
- 5.7 PERSA proposed a range of initiatives to address these issues:

5 Mr Morgan, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 1.

6 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26, 27, p. 2.

7 PERSA, *Submission 10*, p. 2.

8 Tunstall Healthcare, *Submission 8*, p. 2.

9 PERSA, *Submission 10*, p. 2.

10 Mr Geoff Feakes, Chief Information Officer, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

- ...Require RSPs to properly inform potential client's about the compatibility of their service offering with [medical alarm] equipment...
- Require RSPs to include information about service compatibility with medical alarms and other telecommunications equipment in their product sales information.
- Place a list of RSP's who can support existing medical alarms through the UNI-V port in a prominent position on the NBN Co Limited (NBN Co) website.
- In order to ensure preservation of the correct Mode-3 wiring format for medical alarms, require all RSPs that remove the copper service to only connect the analogue (UNI-V) port to the clients incoming copper exchange line.
- In order to ensure the continuing operation of any medical alarm equipment, require all RSPs to perform a medical alarm test-call through to the emergency monitoring centre immediately after service change-over. If the medical alarm fails the test the RSP should immediately reconnect the copper service to the medical alarm in the original configuration.
- Lengthen the telecommunications service contract cooling-off period from 10 days to 30 days, to allow for further identification of any non-compatible equipment.
- NBN Co. to educate consumers and RSP's about the requirements of medical alarms.
- Ensure the copper service to a client is not disconnected or decommissioned before all medical alarm connectivity issues are fully resolved.¹¹

5.8 Like PERSA, Tunstall Healthcare also proposed a range of initiatives to address these broader issues,¹² including:

- The provision of a Free Call consumer hotline made available to assist with information and guidance for consumers with medical alarms.
- NBN Co to provide and maintain a publically available up to date list of Retail Service Providers who offer UNI-V (Voice) port services (i.e. landline telephones over NBN) so consumers can make an informed choice about which NBN RSP can meet their needs.

11 PERSA, *Submission 10*, p. 2.

12 Tunstall Healthcare also supported PERSA's proposal to lengthen the telecommunications service contract cooling-off period – Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

- As part of the standards – copper wires and POTS services are not decommissioned for consumers who have a medical alarm unless their RSP provides for Voice ports (UNI-V).¹³

5.9 On the proposal for the establishment of a free-call number, Tunstall Healthcare further explained:

...we believe it is important that every medical alarm patient, client, and resident of Australia have an advocacy service in regard to the benefits and what NBN is actually deploying, as opposed to being an industry representation or an RSP provision service. That way, a client can actually get true information in regard to what NBN is about, what the benefits to them are, and what their requirements are.¹⁴

5.10 In particular, Tunstall Healthcare emphasised the need for the establishment of a code of conduct for RSPs:

We would like to see some safeguards in place to protect the vulnerable customer and to ensure that the RSPs adhere to a duty of care for the service they provide. We would also suggest that it be mandatory that the RSP investigate the client's requirements before signing them up to a contract. Further to this, we would suggest that the code of conduct set some response of the RSP in relation to the installation of the medical alarm.¹⁵

Battery Back-up

5.11 PERSA and Tunstall Healthcare also raised a number of issues concerning battery back-up for NBN customer equipment in terms of medical alarm functionality – in particular, the short run-time of battery back-up during a mains power failure in contrast to the requirements of Australian Standard AS4607 for the provision of personal emergency alarm services.

5.12 By way of background, Tunstall Healthcare explained that the current unit NBN Co are supplying 'supports six to eight hours of battery supply to the NTD during a mains fail'.¹⁶ However, as PERSA pointed out, while it is proposed to provide 'the standard 6-hour battery backed-up power supply at no cost to the consumer at the time of NBN service installation (optional by informed consent)', this proposed battery run-time for the

13 Tunstall Healthcare, *Submission 8*, p. 3.

14 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

15 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

16 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 3.

NBN customer equipment 'falls significantly short of the 36 hours required for medical alarms under Australian Standard AS4607'.¹⁷

5.13 Tunstall Healthcare similarly noted that many of their customers and corporate client groups 'expect that their alarm equipment will have a minimum of 36-40 hours back up support in line with the requirements of the AS4607 standards for the provision of Personal Emergency Alarm Services'.¹⁸

5.14 As Tunstall Healthcare further clarified:

The current AS4607 provides a requirement for 40 hours of battery capacity or battery back-up to be provided to the medical alarm during a mains failure or power failure. The standard at this stage highlights the requirement for 40 hours and that is what the medical alarm actually delivers to every medical alarm user in the country. It is our understanding that the existing NBN NTD, or power supply unit, will supply approximately six to eight hours of battery back-up in the event of a mains failure. That is significantly less than the 40 hours that is currently provisioned. Obviously that is a significant difference in regard to what can be provided to a client during a power failure or an outage of power in Australia...

At the moment, under AS4607, our batteries inside our alarms last for 40 hours. On the existing infrastructure in place now, prior to NBN, during a mains fail we will get their alarm calls through for more than 40 hours – 40 hours is our minimum. With the introduction of NBN, as soon as the power supply unit – the NTD – loses power there will be no telephony in or out of that device.¹⁹

5.15 Tunstall Healthcare outlined the potential impact on their clients of this shorter battery back-up time:

The problem is that if they lose power during the night, for example, with a 40-hour battery we would get notified that they had lost power but we would know that they would have power in the morning. We did not wake them up to say, 'Margaret,

17 PERSA, *Submission 10*, p. 3. In terms of the battery supply, NBN Co explained that this is provided 'at no cost to the end-user as part of a standard installation. If a customer requests a battery backup unit to be installed to support an existing NBN connection it is also proposed that this would be provided at no cost to the end user', *Submission 7.4, Answer to Question on Notice No. 33*, p. 4.

18 Tunstall Healthcare, *Submission 8*, p. 2.

19 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2, p. 3.

you've lost power' at this stage. When they are longer than the six hours, we can get through the night and work with the client and we can work with family the next day to address those issues. The problem with having a smaller window is that if a power failure happens at say eight o'clock at night, potentially there is no power for the client to press the medical alarm button at four o'clock in the morning with no notification.²⁰

- 5.16 Mr Geoff Feakes, Chief Information Officer from Tunstall Healthcare, usefully summarised the issue, as follows:

As an industry we adhere to AS4607 as a standard. With the provision of the battery backup inside the NTD or for NBN the battery life standard has been reduced and our industry is concerned about that...

Australian standard AS4607 is in place to provision a service for the medical alarm client and patient. What we are looking for is extending the battery backup as currently provisioned by NBN to come back as close as we can to AS4607, that way providing the best outcome for the patient and the client so that we can get through a night or a period of time in the event of a mains fail.²¹

- 5.17 Given this reduced battery back-up time during a mains power failure, there was interest in establishing the number of power outages generally experienced each year in the community. Tunstall Healthcare responded that, 'with our 72,000 clients and patients around the country in the last 12 months we had some 22,000 power outages notified to our emergency response centre. If you do the mathematics you would see that we had some 60 patients and clients who were impacted by power outages every day in Australia'.²²

- 5.18 Further, given the reduction in battery back-up time from 40 hours to six to eight hours, the committee was interested in the average length of these power outages – specifically, in terms of how often power was lost for six or eight hours. In response, Tunstall Healthcare analysed their national database for the months of January 2012, May 2012 and August 2012 and

20 Ms Lisa Capamagian, Marketing and Strategy Implementation Manager, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 4.

21 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 4, p. 5.

22 Mr Morgan, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 4.

provided the following information about ‘mains failure notifications’²³ relating to their monitored clients:

- January 2012 = 5229 total mains failure notifications
- Of which 1023 were greater than 8 hours within any 24 hour period.
- May 2012 = 5162 total mains failure notifications
- Of which 1150 were greater than 8 hours within any 24 hour period.
- August 2012 = 4914 total mains failure notifications
- Of which 1118 were greater than 8 hours within any 24 hour period.²⁴

5.19 On the basis of these figures, Tunstall Healthcare concluded that a ‘monthly average of 1097 equates to approximately 13,164 instances per year of mains failures greater than 8 hours’.²⁵

5.20 Options supported by PERSA to address these broader issues included that:

- NBN Co supply longer run-time battery back-up options
- NBN Co allow after-market suppliers to connect their own, longer run-time, battery backup units.²⁶

5.21 Similarly, Tunstall Healthcare made the following proposals to assist in addressing these issues:

- Standards for installations be established and published to protect consumers who need and have medical alarms in their homes or places of residence.
- The existing AS4607 standards are taken into account in the development of NBN installation standards for the protection of consumers with medical alarms...
- As part of the standards – the installation of a power pack and back-up battery to the UNI-V (Voice) ports are mandatory for all consumers identified as having a medical alarm.²⁷

5.22 It is important to highlight here that, at the time of the committee’s inquiry, NBN Co had recently announced some changes to its process concerning batteries. For example, Tunstall Healthcare pointed to ‘the

23 The term ‘mains failure notification’ was used by Tunstall Healthcare to classify a signal received by the Tunstall monitoring centre due to a power outage – Tunstall Healthcare, *Submission 8.1*, p. 1.

24 Tunstall Healthcare, *Submission 8.1*, pp 1-2.

25 Tunstall Healthcare, *Submission 8.1*, p. 2.

26 PERSA, *Submission 10*, p. 3.

27 Tunstall Healthcare, *Submission 8*, p. 3.

recent decision to power the data points of the network termination unit during a mains failure, which we see as a positive, and also a modification for the auto-shutdown functionality from 30 per cent to 50 per cent of remaining battery life during a main failure'.²⁸

- 5.23 A further change involved 'informed consent of the battery backup. It is not an opt-in or an opt-out anymore; it is predominantly an informed consent'.²⁹ By way of background on this point, NBN Co explained that:

The Government consulted widely with key stakeholder groups (including emergency service organisations, consumer groups and the medical and security alarm industry) on the extent to which NBN Co should provide Battery Backup to different types of end-users (e.g. phone only end-users and Priority Assist end-users). The 2012-15 Corporate Plan incorporates the Government's policy approach that end-users will be able to nominate whether or not they want NBN Co to provide Battery Backup. This is known as a 'must-opt' approach. At the time of ordering a service from an RSP, an end-user will make an active decision as to whether to take the battery back-up unit, or to not take the unit. Priority Assistance households will be provided with a Battery Backup Unit.³⁰

- 5.24 Under the 'Must Opt' regime for battery back-up units, end users can therefore 'nominate whether or not they want NBN Co to provide Battery Backup', noting that 'Priority Assistance households will be provided with a Battery Backup'.³¹ Under this regime, it is assumed that '50% of Fibre End-Users will elect not to have Battery Backup'.³²

- 5.25 A key issue under the 'must opt' regime, as highlighted by PERSA, is therefore not only that consumers are aware that battery back-up is optional at the time of NBN service installation but that sufficient and clear information is provided for consumers to make an informed choice on this matter – reinforcing the importance of this being 'optional by informed consent'.³³

28 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 1.

29 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 1.

30 NBN Co, *Submission 7.5*, Answer to Question on Notice No. 34, p. 3.

31 NBN Co, *Corporate Plan 2012-15*, p. 32.

32 NBN Co, *Corporate Plan 2012-15*, p. 32.

33 PERSA, *Submission 10*, p. 3.

Connecting Multi-Dwelling Units

- 5.26 The NBN Co updated the committee on how it is progressing on connecting multi-dwelling units (MDUs) or apartment blocks to the NBN's fibre network.
- 5.27 The NBN Co confirmed that 'the installation process in apartment blocks ...take[s] longer than in a single dwelling unit (SDU) because multi-dwelling units (MDUs) require multiple connections to multiple' Premise Connection Devices '(PCDs)'.³⁴
- 5.28 The NBN Co, however, added that while MDUs are being connected to the NBN, this process will evolve and become more efficient as the NBN rollout progresses. The NBN Co stated:

We are working on this. There is no right answer to this. Every MDU looks different. There is not one method of connecting MDUs, and installation methodologies do evolve rapidly. Therefore, what we do today will also change over time because there will be more efficient ways of doing this. But we are connecting MDUs today.³⁵

- 5.29 The NBN Co commented that each MDU has differing numbers of units ranging from the average of nine to 50, 100 or more, all with differing designs, which determines connection methodology. The NBN Co explained:

We are using figures which we have experienced to date. There will obviously be opportunities further in the future. But you also need to bear in mind that the average number of premises per MDU in Australia is nine. For instance, a block of town houses is often considered an MDU. If you have 10 town houses, these are basically 10 individual Single Dwelling Units (SDUs) but are labelled an MDU, potentially. In small apartment blocks, where you have four, five or six units in a block, it is labelled an MDU, but the installation methodology would be very, very similar, if not the same, as for an SDU. And then, obviously, you have the very big blocks, where you have 50, 100 or more units in it. Every MDU is an individual design, because every premises will look different.³⁶

34 NBN Co, Submission 7.4, Answer to question on notice No. 8.

35 Mr Ralph Steffens, Chief Operating Officer, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 8.

36 Mr Steffens, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 8.

5.30 The NBN Co further stated that it:

...will need to have a higher degree of engagement with body corporate entities and undertake site surveys ahead of time, incurring detailed design and installation costs for the internal cabling of MDUs.³⁷

5.31 The NBN Co 2012-2015 Corporate Plan states the NBN Co is using a 'build drop' method to connect MDUs. The 'build drop' method replaces the 'demand drop' approach taken previously. The NBN Co explained the difference between the two build methods and stated:

With a 'Build Drop' the connection from the street to the premises is carried out when the distribution and local segments of the fibre network are being built. 'Demand Drop' is when the connection from the street to the premises is installed when an order for a service is received from a retail service provider.³⁸

5.32 The NBN Co further stated that the 'Build Drop' approach will be more cost effective than the previous 'demand drop approach' in the long run. The NBN Co explained:

The 'Build Drop' strategy is expected to be more cost effective in the long run than performing 'Demand Drops', particularly in the context of the agreement with Telstra to disconnect its copper network. 'Build Drops' from the street to the premises for single dwelling units and multi-dwelling units are the most effective way to minimise mobilisation/dc-mobilisation costs and to realise productivity improvements. It is more efficient to provide the drop that connects each premises from the street to the Premises Connection Device...on the outside of the premises, while the construction crews are in the area.³⁹

5.33 In regard to consultation on connection of the NBN to MDUs, the NBN Co 2012-2015 Corporate Plan states:

NBN Co will need to have a higher degree of engagement with body corporate entities and undertake site surveys ahead of time, incurring detailed design and installation costs for the internal cabling of MDUs.⁴⁰

37 Mr Steffens, NBN Co, Transcript of Evidence, Canberra, 30 October 2012, p. 8.

38 NBN Co, Submission 7.6, Answer to question on notice No. 20.

39 NBN Co, Submission 7.6, Answer to question on notice No. 20.

40 NBN Co, Submission 7.4, Answer to question on notice No. 8.

Concluding Comments

Medical Alarms

- 5.34 The committee appreciates the concerns raised by PERSA and Tunstall Healthcare about the operation of medical alarms for aged and at-risk persons under the NBN rollout.
- 5.35 The committee was therefore pleased to note that the DBCDE and NBN Co had held discussions with PERSA and Tunstall Healthcare on these issues – particularly in light of PERSA’s statement that they were ‘extremely concerned about a potential life threatening situation resulting from the rollout of the... NBN in Australia’ in terms of the operation of medical alarms for aged and at-risk persons.⁴¹ Further, regarding this statement, the committee acknowledges significant relevant matters raised by the DBCDE and NBN Co, as discussed below – in particular, paragraphs 5.36-5.43 refer to medical alarm functionality and the copper network; initiatives undertaken by the DBCDE and NBN Co; and a key point emphasised by NBN Co that, in the effective operation of medical alarms over the existing copper network and the NBN, ‘[a]ll participants have a role to play to ensure that end users are given access to the services they need’.⁴²
- 5.36 In this regard, the committee also notes Tunstall Healthcare’s statement that: ‘we have put procedures in place to support clients that have shorter backup battery time, so that we can manage risks on their behalf... if they were our client we would have an understanding of their situation and we would manage that accordingly’.⁴³ Tunstall Healthcare emphasised that they had been ‘working closely with NBN Co’ to ‘ensure that the safety of [their] clients is not compromised during the transition across to the National Broadband Network’.⁴⁴
- 5.37 Accordingly, the committee is aware that the DBCDE and NBN Co have discussed a range of initiatives with stakeholders to address these issues.
- 5.38 Tunstall Healthcare highlighted to the committee that it understood NBN Co was seeking possible ‘legislative amendments’ to address some of these issues:

41 PERSA, *Submission 10*, p. 1.

42 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26, 27, p. 2.

43 Ms Capamagian, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 5.

44 Mr Morgan, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 1.

We have been working very closely with NBN, and NBN have attended our industry representation meetings and are fully aware of our concerns. I believe they are addressing those and seeking legislation to address those concerns moving forward.⁴⁵

- 5.39 Tunstall Healthcare explained that these possible legislative amendments included looking at 'extending of the battery run time to be approximately 30 hours or greater'⁴⁶, considering 'other power sources' in terms of the batteries⁴⁷ and seeking 'alternate ways... [to] power the NTD',⁴⁸ including considering 'some requirement for modification to the power supply unit that connects to the NTD itself to have a more generic plug so that alternative power supplies can also be sorted'.⁴⁹ Tunstall Healthcare further noted that '[c]urrently the battery is only provisioned on the UNI-V port not the UNI-D port. That is one of the issues they are addressing, being able to provide the battery backup to the UNI-D port as well'.⁵⁰
- 5.40 In response to this information, NBN Co clarified to the committee that 'NBN Co is implementing a battery backup model in line with Government policy' and that a 'legislative amendment is not required to make changes to the implementation of the battery backup deployment'.⁵¹ NBN Co also explained in further detail the outcome of its discussions with PERSA and Tunstall Healthcare:

During 2011 NBN Co held complex services workshops with relevant industry stakeholders, including PERSA and Tunstall Healthcare, to assist in the design and development of the User Network Interface Voice (UNI-V) product so that it is fit for purpose to support a range of legacy services, including medical alarms.

More recently, NBN Co met with PERSA in September 2012 to discuss how medical alarms will be supported over the NBN. Analogue medical alarms will be fully supported on the NBN via NBN Co's UNI-V port, which is supported by the backup battery.

45 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 3.

46 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

47 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 3.

48 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 3.

49 Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

50 Ms Capamagian, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 5. Tunstall Healthcare also commented that they understood NBN Co were 'working with the RSPs on who is responsible for the battery management, whether or not the end user or the RSPs, as in the Telstras, Optuses and SkyMeshes will have some role in that' – Mr Feakes, Tunstall Healthcare, Transcript of Evidence, Canberra, 9 October 2012, p. 2.

51 NBN Co, *Submission 7.6*, Answer to Question on Notice No. 32, p. 6.

Internet Protocol (IP) based medical alarms will also be supported by the NBN over the User Network Interface Data (UNI-D) product. NBN Co is currently developing battery backup functionality for the UNI-D. Once this is implemented, IP-based medical alarms will also be fully supported on the NBN.

NBN Co is also working to extend the run time of the battery for both the UNI-V and the UNI-D ports. Both the UNI-V and UNI-D ports have Traffic Class 1 functionality, meaning that the highest traffic priority over the network is available for medical alarms.⁵²

- 5.41 NBN Co also highlighted that, outside of its activities, the Communications Alliance is 'developing a set of recommendations for how RSPs inform end-users of their legacy service support at the time of sign up', in terms of what legacy service they 'do and do not support'.⁵³ In addition, the recent Communications Alliance Telecommunications Consumer Protection Code C628:2012 (TCP Code) has 'increased protections for consumers who have identified a particular need to their RSP'.⁵⁴ Further:

The Australian Communications and Media Authority (ACMA) has the power to issue a specific direction requiring an RSP to comply with the TCP code. If an RSP has been directed to comply with the TCP code and does not, the ACMA has powers to issue a formal warning, or commence proceedings in the Federal Court to issue an injunction or seek recovery of a pecuniary penalty from the RSP of up to \$250,000 for each contravention of the TCP code.⁵⁵

- 5.42 NBN Co noted that it was convening an industry workshop with RSPs and PERSA members in November 2012 to 'discuss medical alarm support and help RSPs prepare', and that it was also 'keeping PERSA briefed on the implementation of the "must opt" battery backup policy'.⁵⁶
- 5.43 The committee welcomes these initiatives. However, at the time of finalising this report, the committee had not been made aware of any specific new announcements in this area. Accordingly, the committee supports further consideration of a number of the initiatives proposed by PERSA and Tunstall Healthcare to address these concerns⁵⁷ and suggests

52 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26-27, p. 2.

53 NBN Co, *Submission 7.8*, Answer to Question on Notice No. 28, p. 6.

54 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26-27, p. 3.

55 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26-27, p. 3.

56 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26-27, p. 3.

57 PERSA, *Submission 10*, pp 2-3, and Tunstall Healthcare, *Submission 8*, p. 3.

this be progressed as a matter of priority. In doing so, the committee acknowledges a key point emphasised by NBN Co – that is:

It is important to note that the effective operation of medical alarms – over the existing copper network and the NBN – requires more than technical functionality. All participants have a role to play to ensure that end users are given access to the services they need. Customers need to advise their... RSP of what services they require with their telecommunications service. Equally, RSPs need to give customers clear and consistent information about which services are supported so that end-users can choose the right service to meet their needs...

In addition to the RSPs providing clear information about what legacy services they do and do not support, there is also a role for the alarm industry to educate and inform their end-users about the requirements of their alarms so that their end-users are better able to choose the telecommunications service to best meet their needs.⁵⁸

Connecting Multi-Dwelling Units

- 5.44 The committee notes the NBN Co's comments regarding the complexities involved in connecting MDUs and the implementation of the 'build drop' approach which will provide cost efficiencies in the longer term.
- 5.45 The committee also notes the information regarding MDUs in the NBN Co 2012-2015 Corporate Plan, in particular the need for it to 'have a higher degree of engagement with body corporate entities and undertake site surveys ahead of time.'
- 5.46 The committee believes that a higher degree of engagement with body corporate entities is essential for the NBN rollout to be carried out to ensure minimal disruption to households and their surrounding premises, especially in consideration of smaller MDUs such as townhouse estates.

58 NBN Co, *Submission 7.6*, Answer to Question on Notice Nos 26-27, p. 2; and *Submission 7.8*, Answer to Question on Notice No. 28, p. 6.

Recommendation 5

- 5.47 **The committee recommends that the Department of Broadband, Communications and the Digital Economy (DBCDE) and NBN Co continue to work with the Personal Emergency Response Services Association, the Communications Alliance and retail service providers to implement a range of initiatives to address concerns with the operation of medical alarms for aged and at-risk persons under the National Broadband Network rollout. This process should be in consultation with the Australian Communications and Media Authority, with the DBCDE to report back to the committee on specific progress in this area.**

Private Equity Engagement and Workforce Issues

Introduction

6.1 The committee has agreed to focus on several topical issues under its broad terms of reference, including:

- the potential of private equity to fund the National Broadband Network (NBN)
- workforce issues in the context of the rollout of the NBN

6.2 These issues were identified for future inquiry in the committee's First Report and reported on in its Second Report and Third Report.

Private Equity Engagement

Background

6.3 The committee continues to be interested in when and how private equity might be engaged in funding the NBN wholesale platform, and at what financial return to the Government and, ultimately, taxpayers. This section of the report therefore considers:

- timeframes for private equity engagement in funding the NBN
- NBN Co's debt financing arrangements

- 6.4 Government funding of the NBN over the rollout period, under the equity agreement between the Government and NBN Co, is discussed in Chapter 2.

Private Equity Engagement Timeframe

- 6.5 As in previous committee reports, there was continued interest over the Fourth Review period in whether a timeframe for private equity engagement in funding the NBN might be brought forward during the construction phase, thereby enabling an earlier return to taxpayers. In particular, there was interest in clarifying to what extent a timeframe for private equity engagement in funding the NBN was influenced by:
- risk – required rates of return to government on its investment; or
 - government policy objectives and legislation, and learning and adapting processes on the part of government and NBN Co at this stage of the project.
- 6.6 In terms of where the balance might be in this equation, the Department of Broadband, Communications and the Digital Economy (DBCDE) commented that:
- In the adapting and learning category... the government clearly has a policy objective in mind with the NBN. It has a detailed set of instructions that accompany the statement of expectations and a series of policy decisions and the parliament has a set of instructions for the company, with legislation. If a private investor convinced itself that it was prepared to take the risk and accept what is impliedly a low rate of return for long-term strategic gain purposes and did want to make an investment then the company, first, and then the government as 100 per cent owner, second, would both need to satisfy themselves that this owner would not get in the way of, if you like, the statement of expectations and parliament's own intentions as expressed in legislation.¹
- 6.7 This matter was further queried on the basis that, if a private entity were willing to take on the risk of the NBN project at a potentially earlier stage than had previously been assumed, whether there would still be a level of caution, given this 'adapting and learning' process. The department responded that, '[b]efore you get to the adaptation and learning... the government would want to be satisfied that it was not risking any basic

1 Mr Peter Harris, Secretary, Department of Broadband, Communications and the Digital Economy (DBCDE), Transcript of Evidence, Canberra, 26 June 2012, p. 10.

policy compromise through this relationship, such as uniform pricing and rollout priorities and so on. There are a whole lot of quite fundamental points you would want to be reassured of before you got to that point'.²

- 6.8 The department further clarified that the level of control required by a private equity investor was also an issue:

Historically, being a minority investor is not a comfortable place for private equity in these sorts of firms, because effectively they are passively stumping up capital and taking the risks but are not able to influence at all the direction of strategic change, so private equity tends not to be terribly comfortable taking those sorts of positions. That is why we think that it is pretty unlikely in the circumstances that anyone would take the risk and that, even if they did, they would then have to satisfy themselves that they would be prepared to follow the directions of the government of the day.³

- 6.9 It was then queried whether this matter may have been ruled out before it had been tested – whether in fact a private equity investor might be willing to take on this risk in terms of the level of business control. Mr Peter Harris, Secretary of the DBCDE, responded:

I would go on the record as saying that would be my advice to government. My advice would be: be very wary of this. Even if they have convinced themselves that the risk is sufficient for them to take it up, you then have to satisfy yourself. I would say that the risk to the project would be significant in those circumstances – you would end up with an uncomfortable partner, and that is not a great outcome for any party to set up... I doubt, because of the practical circumstances I have described, that we would like to see much private equity interest in the NBN Co. as a business through the bulk of the rollout period, simply because of that risk.⁴

- 6.10 There was further interest in the scenario where, if a private equity investor proposed investing in the NBN, whether there would still be an impediment to private equity engagement at an earlier timeframe for reasons other than rate of return. Mr Harris responded, '[t]hat is right... When I used the term 'risk' a little earlier I was not referring to people's views about the efficacy or otherwise of the business plan... When I say

2 Mr Daryl Quinlivan, Deputy Secretary, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

3 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 10.

4 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, pp 10 and 11.

risk, it is what I call partnership risk. You would have to convince yourself as an investor that you are prepared to go along with the senior partner's decisions, continuously. That is a hard thing to do'.⁵

- 6.11 This led to some discussion on private-public partnerships (PPPs), and the example of whether private equity investors who were willing to take on that particular risk in terms of level of control over a project reflected the nature of many existing PPPs. On the topic of PPPs and the NBN project, Mr Harris commented that:

It is more a question of both parties being confident they are prepared to hold hands, as it were, through a period of multiple years of – I guess I have to use the term – risk taking together. That is quite difficult to crystallise. As you know, the engagement rule was switched very quickly from being conceptual to legal. Then you start to draw up the obligations that each party has, and because the NBN Co. is structured under legislation it will have very little room to move. In practice, the ownership structures for NBN Co., as you know, have been established by the parliament and, therefore, we live within those terms as well as within the statement of expectations and intentions of the ministers.⁶

- 6.12 As to whether this made the NBN project different from other PPP projects, Mr Harris observed that:

...most of those are project based; therefore, we can vary the terms of a tender or a contract to suit the interests of both parties if both parties are happy whereas legislation [as in the NBN project]... has to return to the parliament and people in the parliament have to be satisfied that the changes are acceptable. It is a long and drawn out process and one that tends not to be consistent with commercial time frames. I know they have weaknesses but I am probably, on balance, a supporter of PPPs when used in the right circumstances – and legislation tends not to be part of that.⁷

5 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

6 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

7 Mr Harris, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 11.

Debt Financing

- 6.13 The Government's Statement of Expectations⁸ specifies that 'NBN Co should seek to raise debt capital at the earliest opportunity it is able without external support'.⁹ NBN Co's Corporate Plan 2012-15 assumes initial debt-raising in 2015.¹⁰
- 6.14 NBN Co's Corporate Plan 2011-13 referred to an estimate of \$13.4 billion of debt funding over the period to June 2021.¹¹ The new Corporate Plan 2012-15 refers to an estimate of \$13.7 billion of debt funding, over the period to June 2021.¹² The Corporate Plan 2012-15 also assumes that debt funding will contribute 'up to 31% of the total funding to FY2021'.¹³
- 6.15 The Corporate Plan 2012-15 'embeds an assumption of debt-raising, which if successful will provide a mechanism to distribute surplus cash and repay equity over time after the end of the Fibre network Construction period'.¹⁴ The Corporate Plan further states that:

...if actual debt raised at the time was lower than projected, then Equity Funding by Government would need to be increased...

As no assurances can be given that such debt-raising requirements will be met, the capital structure and debt issuance decisions will be determined at the time by the Shareholder Ministers.¹⁵

Concluding Comments

- 6.16 The committee remains interested in the issue of private equity engagement in funding the NBN. Against this background, the committee notes that in the response to the Committee's Third Report the Government commented:

Following completion of the rollout, the government will consider the optimum capital structure for the Company, noting that NBN Co is required to operate within the ownership and

8 Australian Government, *Statement of Expectations*, 20 December 2010 – the Statement of Expectations provides an outline of the Government's policy implementation objectives for the NBN.

9 DBCDE, *Submission 10*, Third Review of the JCNBN, p. 11.

10 NBN Co, *Corporate Plan 2012-15*, p. 80.

11 NBN Co, *Corporate Plan 2011-13*, p. 141.

12 NBN Co, *Corporate Plan 2012-15*, p. 71.

13 NBN Co, *Corporate Plan 2012-15*, p. 80.

14 NBN Co, *Corporate Plan 2012-15*, p. 16.

15 NBN Co, *Corporate Plan 2012-15*, pp 16 and 80.

investment settings determined through the *National Broadband Network Companies Act 2011*.¹⁶

- 6.17 The committee observes that there is also merit, at this point in time, in beginning to gauge investor interest in the NBN and explore the optimum capital structure for the company. The committee has made a recommendation on this matter.
- 6.18 With debt financing on the radar for 2015,¹⁷ the committee also remains interested in NBN Co's progress to date on debt financing arrangements. The committee made a recommendation concerning this area in its Third Report:
- While noting possible revisions in this area in NBN Co's next corporate plan, the committee recommends that NBN Co progress its consideration of debt financing arrangements as a priority.¹⁸
- 6.19 The Government response to the report supported this recommendation, noting that:
- By the time of raising private sector finance, NBN Co will have demonstrated a strong track record in the delivery of its key objectives, established investor confidence in both the rollout and take up of this critical infrastructure, with clear visibility of positive earnings and cashflows.¹⁹
- 6.20 However, the Government response further observed that, 'debt arrangements are subject to market conditions outside of NBN Co and the government's control and will need to be assessed closer to the point that debt is required'.²⁰
- 6.21 The committee again concludes that, given the significance of debt financing arrangements to its future funding mix and the fast-approaching timeframe of 2015 for the commencement of debt financing, NBN Co should progress consideration of this matter as a priority.

16 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18.

17 NBN Co, *Corporate Plan 2012-15*, p. 80.

18 Joint Committee on the National Broadband Network (JCNBN), *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

19 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18.

20 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18.

6.22 The committee will continue its inquiries into these issues over future reporting periods.

Recommendation 6

6.23 The committee recommends that the Government:

- seek to gauge investor interest in the National Broadband Network; and
- investigate the optimum capital structure for the NBN Co.

Workforce Issues

Background

- 6.24 The committee continues to be interested in workforce issues in the context of the NBN rollout. This section of the report therefore looks at:
- Telstra workforce retraining issues associated with the NBN rollout, including the Telstra Retraining Funding Deed and Telstra Training Plan, and
 - NBN workforce planning.

Telstra Workforce Retraining Issues

Telstra Retraining Funding Deed

- 6.25 In implementing structural reform of the telecommunications industry, the Government's NBN policy will have a significant impact on Telstra as the highly integrated and dominant industry incumbent.²¹ The Binding Definitive Agreements between NBN Co and Telstra form the basis of Telstra's participation in assisting with the rollout of the NBN.²²
- 6.26 In support of these agreements, the Government has committed to provide \$100 million to Telstra under the Retraining Funding Deed (RFD) to assist it in the retraining and redeployment of Telstra employees affected by structural reforms of the telecommunications industry.²³ The RFD between the Commonwealth and Telstra came into force when the Binding Definitive Agreements commenced in March 2012. The term of the RFD is for eight years, and Telstra can request an extension of a further three years.²⁴
- 6.27 The objectives of the RFD are 'to support the availability of an appropriately trained workforce for the NBN and to retrain Telstra staff

21 JCNBN, *Review of the Rollout of the National Broadband Network: Second Report*, November 2011, p. 34.

22 NBN Co, 2011, *NBN Co and Telstra Sign Binding Definitive Agreements*, media release, 23 June.

23 Conroy S (Minister for Broadband, Communications and the Digital Economy) and Wong P (Minister for Finance and Deregulation), 2012, *Definitive Agreements between NBN Co and Telstra come into Force*, media release, 7 March.

24 The DBCDE explained that it is 'up to Telstra to put a case to the Commonwealth as to why an extension should be granted', and that, under the RFD, 'the Commonwealth will not unreasonably withhold or delay consent to a request for the term to be extended' — *Submission 14*, Answer to Question on Notice No. 52, p. 3.

who may otherwise face redundancy as a consequence of the rollout of the NBN'.²⁵ In its submission to the inquiry, Telstra emphasised that:

...implementation of [the] Retraining Funding Deed is a critical part of Telstra's agreements with NBN Co and the Government.

We have long understood that the structural changes being imposed on the telecommunications sector, by the roll out of the NBN, would have significant implications for our business, including our people.

As we progressively migrate customers to the NBN and decommission our copper access network, the scale of the network maintenance task will diminish. This will have a direct and long term impact on the way Telstra operates and will have practical implications for our people.²⁶

6.28 The RFD sets out how Telstra will identify employees eligible for retraining in NBN related technical, process and system activities; the scope of training courses to be made available; the standards and quality that must be met; and the timing of training. It operates by identifying two categories of employee: an Automatically Eligible Workgroup (AEW) and another group of employees who may be determined to be eligible. The AEW group includes the Telstra:

- copper and hybrid fibre coaxial (HFC) based field workforce which undertakes installation and maintenance and construction and maintenance activity on Telstra's Customer Access Network;
- direct field support workforce which conducts copper/HFC based field workforce support, including workforce management, workforce and resource planning, and construction program management;
- support of copper/HFC operations workforce which provides design of products, management of damages, network integrity, plant assigning, customer network improvements and contract management; and
- wholesale copper service workforce which provides the interface between retail service providers and Telstra in relation to copper services.²⁷

6.29 The other eligible group comprises those 'employees who Telstra is satisfied may face redundancy over time (if not retrained) as a

25 Telstra Corporation, *Submission 12*, p. 1.

26 Telstra Corporation, *Submission 12*, p. 1.

27 DBCDE, *Submission 10*, Third Review of the JCNBN, pp 4-5.

consequence of the decommissioning of the copper network or the deactivation of the HFC network'.²⁸

- 6.30 As at 1 March 2012 the AEW group numbered 6,255 employees.²⁹ To place this in context, Table 6.1 sets out Telstra's workforce composition as at 30 June 2012.

Table 6.1 Telstra Workforce Composition (as at 30 June 2012)

	Domestic full time staff headcount	Total workforce FTE
Telstra group	30 203	39 972.38
Domestic controlled entities	3 317	3 895.95
Offshore controlled entities		5 210.83
Telstra Corporation	26 886	30 865.60

Source Telstra Corporation, *Submission 12.1*, p. 2.

- 6.31 The committee was interested in the composition of the AEW and whether there might be a group of Telstra employees who could potentially miss out on access to the AEW. Ms Ros Eason, Senior National Industrial Research Officer from the Communications Division (CWU) of the Communications, Electrical and Plumbing Union (CEPU), responded that:

...the core of [the AEW] is the customer field workforce – service delivery and the design and construction functions. We are satisfied at this stage that that is going to be targeted... There may be some questions around the edges, but I do not think there is any question that the core of people who will be targeted by this funding are the people who need to be targeted.³⁰

- 6.32 There was also interest in whether the size of the AEW group might change, depending on how much work Telstra gained over time from the NBN rollout. Telstra explained that:

...the training is for two groups. There is the AEW, and we expect that to stay relatively constant. It is that sort of 6½ thousand mark. But then there is also another group, which is those people who are not within the AEW area but who otherwise may face redundancy as a result of the NBN rollout. At the moment we do not have a good estimate of what that group will be, but then that

28 Telstra Corporation, *Submission 12.1*, p. 3.

29 DBCDE, *Submission 10*, Third Review of the JCNBN, p. 5.

30 Ms Ros Eason, Senior National Industrial Research Officer, Communications Division (CWU), Transcript of Evidence, Canberra, 26 June 2012, p. 3.

group may fluctuate depending on exactly what happens in the future.³¹

- 6.33 This led to queries about the number of Telstra employees in the other eligible group under the RFD. Telstra responded that:

There is provision within the deed that recognises that there might be other groups outside of that eligible group and, therefore, there is capacity to bring them into the retraining funding deed if they are identified as being impacted by the NBN...

That number is not known and it is not specified. There is just an acknowledgement that there may be more and therefore they should have access to the retraining.³²

- 6.34 As Telstra further clarified, 'at a time of very significant change for our business and at a time when we cannot actually predict seven or eight years into the future', there may be 'other employees who would be impacted in addition to those that we can see now'.³³

- 6.35 Another matter of concern was whether there would be employment within Telstra for every person in the AEW who received retraining under the RFD. The CWU commented that 'it is obviously the expectation... that, if Telstra is going to spend money retraining people, we assume that they are going to use them. They do not spend the money to retrain them, then push them out the door to work for their commercial rivals'.³⁴

- 6.36 Mr Daryl Quinlivan, Deputy Secretary from the DBCDE, similarly noted that:

I think that is very much the objective that Telstra has. In fact, that is the rationale underlying the arrangement generally. You might recall that the origins of this were part of the broader agreement with Telstra on the definitive agreements with NBN Co. This was an ancillary agreement and the underlying logic was that payment to Telstra to retrain staff and avoid redundancies created a lot more value for Telstra than the value of the payment and so there was a win for both parties in the transaction that contributed to the value Telstra was realising from the definitive agreements generally. So I think it is very much Telstra's objective that they

31 Mr Julian Clarke, Director, Workplace Relations and Policy, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 29.

32 Mr James Shaw, Director, Government Relations, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 33.

33 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 34.

34 Ms Eason, CWU, Transcript of Evidence, Canberra, 26 June 2012, p. 7.

retain these people within the company and therefore avoid the redundancies, and that is how the value is created for the company.³⁵

6.37 However, in response to this matter, Mr Julian Clarke, Director of Workplace Relations and Policy from Telstra, clarified that:

It will depend on the rollout, the extent of what we are asked to do by NBN, how many customers we have at any given time – those sorts of factors...

The purpose of the deed is obviously to retain as many people as we can. We recognise that we have a very skilled workforce at the moment. We want to retain as many of those people as we can and we understand that is the purpose of the retraining. If you are asking me whether I can give a guarantee that every employee who is in the automatically eligible work groups will be retained, it is not something that I could be in a position to do now but more because I do not know what will be happening in the future.³⁶

6.38 Similarly, Mr James Shaw, Director of Government Relations from Telstra, added that:

I think it is fair to say that we are not designing this such that we retrain and then just exit employees. We like to keep our employees. We have invested a lot in them. Irrespective of the Commonwealth funding or taxpayers' funding, here under the retraining funding deed, we have invested a lot in our skilled employees out of our shareholders' dollars and we would like to continue to employ those people and utilise their skills to provide services to our customers...

we just cannot guarantee, given what we have in front of us at the moment, that everyone would be retained in the business.³⁷

6.39 To further explore this matter, the committee queried whether one of the key performance indicators of the RFD required that a certain percentage of employees in the AEW be employed within Telstra for a certain period of time. Mr Shaw responded, 'I do not believe so, no'.³⁸

35 Mr Daryl Quinlivan, Deputy Secretary, DBCDE, Transcript of Evidence, Canberra, 26 June 2012, p. 9.

36 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, pp 27-28.

37 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, pp 28 and 33.

38 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 32.

6.40 This led to interest in whether there was instead an expectation by government about how long employees would retain employment within Telstra as a result of retraining under the RFD. Mr Clarke responded, '[n]ot as far as I am aware', but emphasised that 'it is important to remember the dual purpose that the deed is expressed to have, which is (1) to support the retraining of employees within Telstra and (2) to support more broadly the skilling of the workforce to roll out the NBN'.³⁹ To further clarify this point, Telstra explained that:

The purpose is so that they either continue employment within Telstra or retrain to operate in the NBN environment... In essence, they were saying... 'Here is a Commonwealth contribution of \$100 million to assist in the retraining of workers affected by the NBN, such that they are then skilled up to work in a fibre world, either with Telstra or with other people associated with the NBN'.⁴⁰

6.41 As Mr Shaw further commented, 'the minister and the NBN Co. have both indicated that they expect significant employment during the rollout of the network, that it will generate significant new jobs' and therefore, 'if we look at the market rather than just Telstra for employment, there are a range of opportunities that will arise as a consequence of the rollout of the network itself'.⁴¹

6.42 Noting commercial sensitivities, this then led to a query about the volume of Telstra's NBN related work, as it obviously had implications for Telstra employees being retrained under the RFD. Telstra observed that the 'bulk of the work' currently being undertaken as a result of the NBN rollout was 'related to the build of the transit network, which is part of the definitive agreements', but emphasised that they 'stand ready to do whatever [they] can to assist NBN Co. to expedite the rollout of the network' – while also recognising that NBN Co have a 'commercial imperative' and are 'bound by procurement obligations'.⁴²

6.43 Against this background, there was a query about a recent loss of Telstra positions, with a number of positions also apparently moving offshore⁴³ – in particular, regarding whether these employees were eligible for retraining and redeployment under the Telstra RFD as part of the NBN

39 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 32.

40 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 33.

41 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 32.

42 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 30.

43 'Telstra's "Project New" means big job cuts', *Australian*, 22 August 2012, p. 19.

rollout. Telstra explained that this was 'not connected at all with the NBN rollout'⁴⁴ and therefore these employees did not fall under the RFD:

...those Lismore and Townsville call centres and the like were not NBN related. So they were caught up with our general provisions...

The point we would make about the structure and composition of our workforce is that there are a range of factors that impact on employment decisions in the business. The NBN and the structural change to the industry that the NBN is creating is one of them.

There are a whole range of other factors at play within our business at the moment which impact on employment decisions.⁴⁵

- 6.44 As Telstra further clarified, employees whose 'roles are redundant for reasons unrelated to the rollout of the NBN (e.g. reduction in call volumes due to more transactions online and/or fewer complaints) would not be eligible for retraining'.⁴⁶

Telstra Training Plan

- 6.45 The RFD requires that a Training Plan be developed by Telstra and approved by the Commonwealth. The Training Plan is therefore a significant component of the RFD. Each Training Plan covers a three-year period, with the initial Training Plan covering the period 30 April 2012 to 30 June 2014.⁴⁷ Subsequent plans are to be lodged six months before the expiry of the previous plan. The first Telstra Training Plan was formally approved by the Government on 25 June 2012.⁴⁸
- 6.46 The scope of the Training Plan is to identify training needs, course development, training methodology and targets for retraining. The Training Plan deals 'primarily with employees who are in the AEW, as they can be specifically identified'.⁴⁹ Under the terms of the RFD, 'not less than 70 per cent of funds spent in any three years of a Training Plan must go towards the development and delivery of Accredited Training Courses by a Registered Training Organisation'.⁵⁰

44 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 29.

45 Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, pp 29-30.

46 Telstra Corporation, *Submission 12.1*, p. 3.

47 Telstra Corporation, *Submission 12.1*, p. 2.

48 Telstra Corporation, *Submission 12*, p. 2.

49 Telstra Corporation, *Submission 12.1*, p. 3.

50 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 19.

6.47 Noting that the Training Plan is commercial-in-confidence, the committee was nonetheless interested in gaining a better understanding of how the plan would operate. In response, Telstra provided a summary of the plan.⁵¹ The DBCDE also provided some background on the Training Plan, noting that it included:

- Forecast inputs to the Training Plan, which identify the class of Telstra employees that may be retrained and forecasts their retraining needs and possible redeployment options.
- Curriculum and courseware development, which outlines the proposed approach for developing training courses.
- Learning delivery plan, which details the proposed course delivery method and the plan to deliver courses across geographic regions.
- Training and financial reporting, which includes the format for reporting and tracking budgets and training activity.
- Training Targets, which have been set for the eight year life of the deed...⁵²

6.48 In terms of the number of Telstra employees that had received training to date under the Training Plan, Telstra noted that, even though the first year of the plan had been shortened:

...in those 2 months, more training was delivered than the Plan required with 107 Telstra employees being retrained against the 40 estimated under the Plan. All of those retrained employees were in our copper/HFC areas and retraining related to the installation and migration curriculum. In total, there were [2,826] training attendances in the 2 months, which comprised [1,890] attendances related to structural separation undertaking training and [936] attendances related to other curricula. We also developed 21 courses, primarily in the installation and migration curriculum, as was anticipated would be developed under the Plan.⁵³

6.49 Telstra further outlined that:

Year 2 of the Plan commenced on 1 July 2012. Between then and 30 September 2012, we have delivered a further 856 training attendances across the installation and migration, value add premises, planning design and construction, and customer support curricula. Telstra currently has 40 training courses under

51 Telstra Corporation, *Submission 12.1*, pp 2-4.

52 DBCDE, *Submission 14*, Answer to Question on Notice No. 53, p. 4.

53 Telstra Corporation, *Submission 12*, pp 2-3 – with some figures (bracketed), as later corrected by Mr Shaw, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 26.

development consisting of 34 new courses and 6 updated courses.

This is on track to meet the target set in the Plan. Telstra already has 30 training courses available in the NBN retraining catalogue.⁵⁴

- 6.50 The DBCDE provided similar statistics on Telstra employee retraining under the Training Plan, further noting that, 'of the 107 Telstra employees retrained, 16 were in TAS, 31 in VIC, 44 in NSW/ACT and 16 in QLD'.⁵⁵
- 6.51 It is anticipated that the majority of the technical training delivery will occur in years 3-8 of the term of the RFD, reflecting 'the expected profile of the NBN build', with a 'minimum of 173 training courses' having been developed or having had content revisions in the first three years of the plan.⁵⁶
- 6.52 Certain categories of employees have been identified in the AEW, but the committee was interested in the specific types of roles that employees might perform once they had undertaken retraining under the Training Plan. As Ms Eason, Senior National Industrial Research Officer from the CWU, commented, 'I think what is being said is, "We still don't quite know what the exact profile will be of telecommunication service industry workers in the future and just what the skill mix will be which will be of use" ...Exactly what that person looks like and what training you need to create them is not yet completely fixed'.⁵⁷
- 6.53 On this point, Telstra explained that it had 'mapped employees in the AEW to new functions and forecast the skills required to undertake these functions'.⁵⁸ While noting that the details of this forecast are 'commercially sensitive', Telstra broadly identified six retraining categories:
- planning design and construction of the NBN using FTTP, wireless and satellite technology
 - operational elements, including installation and migration of services from Telstra's existing networks to the NBN
 - operations and maintenance activity on the NBN
 - support for network elements including network transport and interconnect
 - back of house and front of house activities that support customer migration, new connections and customer and network assurance, and

54 Telstra Corporation, *Submission 12*, p. 3.

55 DBCDE, *Submission 14*, Answer to Question on Notice No. 52, p. 2.

56 Telstra Corporation, *Submission 12*, pp 3-4.

57 Ms Eason, CWU, Transcript of Evidence, Canberra, 26 June 2012, p. 7.

58 Telstra Corporation, *Submission 12.1*, p. 3.

- installation and maintenance of in-premises products and services.⁵⁹
- 6.54 Telstra also commented that, 'we know some of the things that we will require them to do', in that the employees who have already been retrained 'can do a new skill, and that was the installation and migration of customers from our network onto the NBN'.⁶⁰
- 6.55 In terms of how success would be measured under the Training Plan, Telstra noted that the plan included the following targets:
- a three year high level NBN Retraining Courseware Development Plan, which is reviewed every 12 months. It also sets out Telstra methodology for developing courseware, how it intends to evaluate and review courseware, as well as how health and safety requirements will be incorporated into training and evaluated
 - targets for the number of courses that will be developed during each year of the Training Plan.
 - an annual delivery plan, which details the number of courses intended to be delivered and the number of people that are planned to attend training during each quarter in each geographical location...
 - a forecast, for the eight years of the Retraining Funding Deed, of the annual and cumulative planned spend for both courseware development and training delivery. It is intended that actual spend will be tracked against this. The planned spend may be revised, from time to time; and
 - for each of the eight years of the Retraining Funding Deed, targets for:
 - ⇒ total spend on training;
 - ⇒ the number of courses to be developed/refreshed; and
 - ⇒ the number of employees who will be retrained in a new skill.⁶¹
- 6.56 The CWU confirmed that it was 'supportive of the general thrust of Telstra's proposed training plan' – in particular:
- ...that the training will be based largely on the nationally endorsed training package for the telecommunications industry

59 Telstra Corporation, *Submission 12.1*, p. 3.

60 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 27.

61 Telstra Corporation, *Submission 12.1*, pp 3-4. Beyond the first three years of the Training Plan, Telstra pointed out that these 'targets are approximate' and will be 'confirmed or revised' when the next Training Plan, covering the period 1 July 2014 to 30 June 2017, is submitted – *Submission 12.1*, p. 4.

(ICT10) with outcomes aligned to the Australian Qualifications Framework

- A focus on the development of higher skill levels and roles (generally at AQF3 and 4)
- Targeting of areas where there are well recognised skill shortages relevant to the NBN rollout, e.g. network designers
- Development of skill profiles matched to emerging work opportunities.⁶²

Full Qualification and Recognition of Prior Learning

6.57 The CWU raised recognition of prior learning (RPL) as a key issue in terms of enabling Telstra employees to ‘gain nationally recognised qualifications as part of the overall NBN training and certification effort’,⁶³ noting that:

...the recognising of prior learning that we are saying we would like to combine with the retraining [is] to make sure that people have the best chance of coming up with a cert II, a cert III or a cert IV – that is, to bring people up to a full qualification level as part of the internal training program. Some companies do not like a fixation on certification, but most employees like it. Even if employees have got a guarantee of work for four or five years, or for 10 years, for them to come out of this exercise with a cert IV or a cert III would be, in our view, a good outcome. And that would be achieved by a mixture of retraining on the basis of recognised training packages and, possibly, recognising prior learning.⁶⁴

6.58 On this point, the CWU was particularly concerned about employees ending up with a ‘patchwork of skill sets’ – ‘[y]ou can have a whole range of competencies and just have one or two units missing – and therefore you will not have a full cert II or a full cert III. That is the issue. You might end up with a kind of patchwork of skill sets which leave you just short of a full qualification’.⁶⁵

6.59 According to the CWU, Telstra had indicated that, as part of its training program, it would ‘consider combining RPL with new training “where [it was] reasonably able to do so”’.⁶⁶ The CWU explained that it had raised this matter with Telstra and:

62 CWU, Communications Electrical and Plumbing Union (CEPU), *Submission 1*, p. 2.

63 CWU, *Submission 1*, p. 2.

64 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 4.

65 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 5.

66 CWU, CEPU, *Submission 1*, p. 2.

...again they have said: 'Yes, where it makes sense'. That is, where we are talking about maybe a few units needed to bring somebody up to a full qualification. But there is no ironclad guarantee...

Telstra are saying: 'We don't recognise that as necessarily part of our obligation under the trust deed...

[Telstra's] position has always been: 'We'll train people and where possible we'll bring them out at a full qualification level, but if that doesn't make sense for us – if it is just a group of skill sets and not a full qualification, then that is it.' We think it makes sense in this context to combine the two things...

We have raised that with them because we think that not only do we want people trained against externally recognised qualifications but we also like the idea of people coming out with a full qualification.⁶⁷

6.60 However, the CWU did note some progress in this area: 'Telstra do appear to be doing some work now on aligning their internal training to the ICT team package. And you do that if you are putting in place the preconditions for recognising prior learning... but as to getting the ironclad commitment of "Yes, we'll do that," as you can see, we have not got that in these discussions'.⁶⁸

6.61 In response to these concerns about whether retraining for NBN related work under the Training Plan would see Telstra employees reach full qualification level or leave them with only a group of skill sets, Telstra explained that 'what we have said to the CEPU during consultation' is that we are asking, 'what are the skills that we need people to have? We will retrain people to do the things and we will then map that through to the AQF. Whether or not that actually gives somebody a full qualification... will depend on exactly which modules they do and how many of the competencies they gain'.⁶⁹

6.62 In terms of whether this would then see employees attaining the full competency, Telstra further clarified that:

It is not a decision we have actually made yet. But what we have said is that we understand the position that has been put to us – that surely it makes sense that if somebody has got 90 per cent of the qualification we help them get the 10 per cent – and that is

67 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 4, p. 5.

68 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 5.

69 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 31.

something we will look to make a decision on when we get to that point. What we do accept is that there is some logic in that. I suppose what we are not doing is saying to an individual employee, 'We will train you so that you have everything for this particular certificate'. That is not the way in which the training is being rolled out. It is being rolled out more on an as needs basis, based on the particular type of work that we have and the skills that we identify they need to be retrained in to do that work.⁷⁰

Consultation

6.63 Consultation is an important aspect of the Telstra RFD. Under the deed, Telstra must consult with unions on the implementation of the plan at least quarterly, and it is also required to consult with the DBCDE on at least a six-monthly basis.⁷¹ In accordance with these obligations, Telstra commented that, to date, it had:

...met with the unions and the Department on 4th November 2011, 19th March 2012, 20th June 2012 and 19th September 2012. On these occasions we have discussed:

- the development of the Training Plan;
- the training courses that have been developed and delivered according to the Plan; and
- the target number of employees to be retrained and the actual number who have been re-trained by Telstra to date in excess of that target.⁷²

6.64 Telstra noted that these meetings had been 'open and cooperative and... involved significant discussion between the participants'.⁷³

6.65 On the consultation process so far, the CWU commented that '[i]t is more than tick-a-box... all the way down the company in the different layers that we are involved with that is a sharp awareness, and that is creating a sort of willingness to engage'.⁷⁴

6.66 The DBCDE noted that it had attended, as an observer, Telstra's quarterly meetings with the unions and, in this capacity, considered that 'Telstra is

70 Mr Clarke, Telstra Corporation, Transcript of Evidence, Canberra, 30 October 2012, p. 31.

71 Telstra Corporation, *Submission 12*, p. 4.

72 Telstra Corporation, *Submission 12*, p. 4.

73 Telstra Corporation, *Submission 12*, p. 4.

74 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 8.

meeting the consultation and stakeholder engagement requirements under the deed'.⁷⁵

Reporting Requirements

6.67 The RFD includes a detailed reporting regime, covering both financial and training activities. As the DBCDE outlined, Telstra must:

- provide a half yearly report to the Department on progress against the training plan and a more detailed annual report to the Department on the training plan; and
- meet with the Department every six months and, unless agreed otherwise, to discuss, among other things, the progress of the retraining; and
- hold quarterly meetings with its unions which the Department will attend as an observer.⁷⁶

6.68 Telstra provided the department with its annual report on progress against the Training Plan in August 2012, and the report included information on:

- number and geographical location of employees that were retrained
- number of employees retrained from each Telstra work group
- nature and quantity of training courses developed and delivered
- number of employees trained and the pass rate from each course
- amount of funding used on accredited training as a percentage of total funds expended
- progress against training targets.⁷⁷

6.69 Further, the committee notes the Government's support for a recommendation in its Third Review report concerning public dissemination of a reporting document on annual progress under the Telstra RFD.⁷⁸ It was agreed that information about progress of the RFD could be 'included in the annual statement outlining the direct and indirect employment benefits of the National Broadband Network',

75 DBCDE, *Submission 14*, Answer to Question on Notice No. 55, p. 6.

76 DBCDE, *Submission 14*, Answer to Question on Notice No. 54, p. 5.

77 DBCDE, *Submission 14*, Answer to Question on Notice No. 54, p. 5.

78 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

provided as part of the Government response to the committee's review reports.⁷⁹

- 6.70 In terms of how expenditure for funding under the RFD is budgeted over the eight years of the deed, the DBCDE advised that:

The Australian Government provided Telstra with an upfront payment of \$100 million (exclusive of GST) in 2011-12, as announced in the Economic Statement 2010, which was subject to the Commonwealth approving the initial training plan and budget.

The training plan includes training targets, one of which is an eight year expenditure forecast which utilises the full \$100 million payment. It is envisaged that yearly targets will be adjusted from time to time.

Telstra must provide the department with a new annual budget at the start of each financial year during the term of the RFD and the budget must include a breakdown of proposed spending.⁸⁰

NBN Workforce Planning

- 6.71 The CWU raised the issue of NBN skills supply issues, noting that it had been 'warning of possible skill shortages in relation to the NBN rollout for several years' – in particular, the CWU was concerned that:

...responsibility for skill development and supply does not and cannot be made to rest with any one participant in the project. As a result, co-ordination and funding questions in relation to skill shortages have inevitably arisen.

These have been exacerbated by structural changes in the telecommunications workforce over the last decade... which has seen many former employees become sub-contractors. Such workers may often not have the means or the incentives to undertake retraining for the NBN project, especially where significantly higher skill levels are required.⁸¹

- 6.72 The CWU further clarified that these activities need to be 'sufficiently well funded and coordinated to ensure a timely supply of skills to the project' – however, at present, 'there does not appear to... be one body
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79 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 18, p. 24.

80 DBCDE, *Submission 14*, Answer to Question on Notice No. 52, p. 3.

81 CWU, *Submission 1*, p. 3.

which has the responsibility or the resources for developing an overall workforce strategy in this area and ensuring its implementation. This is a matter which we consider warrants the committee's and the government's further attention'.⁸²

6.73 In response to this matter, the DBCDE emphasised that:

The Australian Government is committed to ensuring there is a well-trained and accredited workforce for Australia's largest infrastructure project and the government is confident that NBN Co and its service delivery partners will be able to source expertise and resources to fulfil their obligations.

NBN Co's analysis suggests that the implementation of a variety of resourcing and skilling strategies will ensure that there are enough people in the industry to meet the skills requirements for the construction of the network.⁸³

6.74 The DBCDE further noted that the department and the NBN Co are 'working closely with all stakeholders including the NBN Co's service delivery partners, the industry skills boards and training organisations to facilitate partnerships and support an appropriately skilled workforce to support the rollout'.⁸⁴

6.75 In terms of the major areas of emerging NBN training need and workforce demand, including local/regional employment, the DBCDE explained that:

NBN Co has forecast that the total number of new jobs created in the construction of the NBN alone is between 16,000 and 18,000.

NBN Co has identified that 80 per cent of the workforce will be spread across the top five occupational groups of labourers, NBN Linesworkers, NBN Installers, NBN Splicers and earthmoving plant operators.

The company undertakes workforce modelling using the national rollout schedules to forecast demand for workers, by region, occupation and time. This modelling has recently been refreshed and reviewed against the current three year rollout plan.

NBN Co has developed a skills formation strategy which targets occupational qualifications at Certificates II and III with the

82 Mr Dan Dwyer, Divisional Secretary, CWU, Transcript of Evidence, Canberra, 30 October 2012, p. 2.

83 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, p. 7.

84 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, p. 7.

objective of building the industry's capability. To this end, NBN Co is working with selected training organisations to identify skills gaps and to provide training.⁸⁵

- 6.76 The Government response to the committee's Third Report provides further details on NBN skilling strategies and major areas of emerging NBN training need and workforce demand, in line with the committee's recommendation to that effect.⁸⁶

Concluding Comments

- 6.77 Over future reporting periods, the committee will continue to be interested in monitoring progress under the Telstra RFD and Training Plan in supporting the availability of an appropriately trained workforce for the NBN. The committee was therefore interested in whether the RFD and its accompanying Training Plan were publicly available documents. Telstra explained that both documents were commercial-in-confidence.⁸⁷ However, as outlined earlier, both Telstra and the DBCDE were able to provide the committee with an overview of these documents. The committee welcomed the details provided on the RFD and Training Plan by the DBCDE and Telstra. The committee further notes the reporting regime that has been established for the RFD and the progress reported to date against established performance targets under the Training Plan.
- 6.78 In this regard, the committee also notes the Government's support for a recommendation in its Third Review report that the DBCDE 'publicly disseminate a reporting document on annual progress under the Telstra Retraining Funding Deed'.⁸⁸ The committee therefore looks forward to receiving the next annual update on this matter.
- 6.79 The committee will also continue to be interested in monitoring the size and composition of both the AEW and the other workgroup eligible for retraining under the RFD in terms of the numbers and roles of Telstra employees retrained/redeployed and successfully transitioned over into
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85 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, pp 7-8.

86 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, pp 19-24.

87 Telstra Corporation, *Submission 12.1*, p. 1.

88 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii. The Government agreed that 'information about the progress of the Telstra Retraining Funding Deed could be included in the annual statement outlining the direct and indirect employment benefits of the National Broadband Network', provided as part of the Government response to the committee's review reports, and therefore made publicly available – Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report on 30 June 2012*, p. 18.

the NBN sector, particularly given the uncertainties about the future size and composition of this second group – '[a]t this point in time, it is not possible to accurately estimate how many employees may be in the second category'.⁸⁹

- 6.80 The number and role of Telstra employees who do or do not fall into this eligible group are of interest here – the reasons for their eligibility or exclusion. As the committee heard, 'employees will only fall into this category, and be eligible for retraining, if their role may be redundant because of NBN rollout. Employees whose roles are redundant for reasons unrelated to the rollout of the NBN... would not be eligible for retraining'.⁹⁰

Recommendation 7

- 6.81 **The committee recommends that, in providing an annual statement to the committee on the progress of the Telstra Retraining Funding Deed (RFD), the Department of Broadband, Communications and the Digital Economy include in this information an update on:**
- **ongoing company retention rates for employees in the Automatically Eligible Workgroup, retrained under the RFD;**
 - **the current numbers and roles of employees in the other eligible workgroup under the RFD and an overview of the current reasons for eligibility or exclusion in terms of this group.**
- 6.82 The committee notes the concerns raised about Telstra employees receiving a full qualification, where applicable, under the Training Plan as part of the RFD, rather than a 'patchwork of skill sets... just short of a full qualification'.⁹¹ It therefore sees benefit in further consultation between the DBCDE, Telstra and the relevant unions on this matter as part of the continuing formal consultation process under the RFD.
- 6.83 Given that the purpose of the RFD is to assist in the retraining and redeployment of Telstra employees, to prepare them to work on NBN related activities, forward projections concerning the scale and composition of this employment market are of significance. Against this

89 Telstra Corporation, *Submission 12.1*, p. 3.

90 Telstra Corporation, *Submission 12.1*, p. 3.

91 Ms Eason, Transcript of Evidence, Canberra, 26 June 2012, p. 5.

background, the committee notes the Government's commitment, in line with its response to the committee's recommendation in its Third Report,⁹² to publish such information on an annual basis.⁹³

- 6.84 The committee notes that, as further recommended in its Third Report,⁹⁴ this annual statement will also include information on major areas of emerging workforce demand and training need in this regard, to ensure that the Australian workforce, more generally, has the skills-set to be able to implement and maintain the NBN into the future.
- 6.85 On this point, the committee acknowledges the statement made by the DBCDE that the department and NBN Co are 'working closely with all stakeholders including NBN Co's service delivery partners, the industry skills boards and training organisations to facilitate partnerships and support an appropriately skilled workforce to support the rollout'.⁹⁵ The committee believes there would be benefit in further coordinating this area, in developing and implementing the overall workforce strategy.

Recommendation 8

- 6.86 **The committee recommends that, in providing an annual statement to the committee outlining the major areas of emerging National Broadband Network (NBN) workforce demand and training need, the Department of Broadband, Communications and the Digital Economy include in this information a more detailed report on:**
- **the workforce development strategy supporting the NBN rollout, including current workforce modelling and outcomes from work with training organisations and industry skills boards, to identify skills gaps in this area and develop training programs;**
 - **how the development and implementation of this overall workforce strategy is being coordinated.**

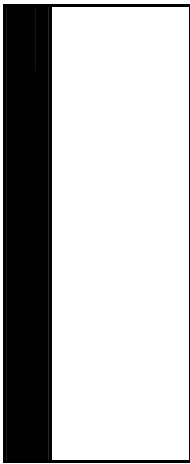
92 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

93 Australian Government, October 2012, *Response to the Joint Committee on the National Broadband Network Third Report of 25 June 2012*, p. 24.

94 JCNBN, *Review of the Rollout of the National Broadband Network: Third Report*, June 2012, p. xxii.

95 DBCDE, *Submission 14*, Answer to Question on Notice No. 56, p. 7.

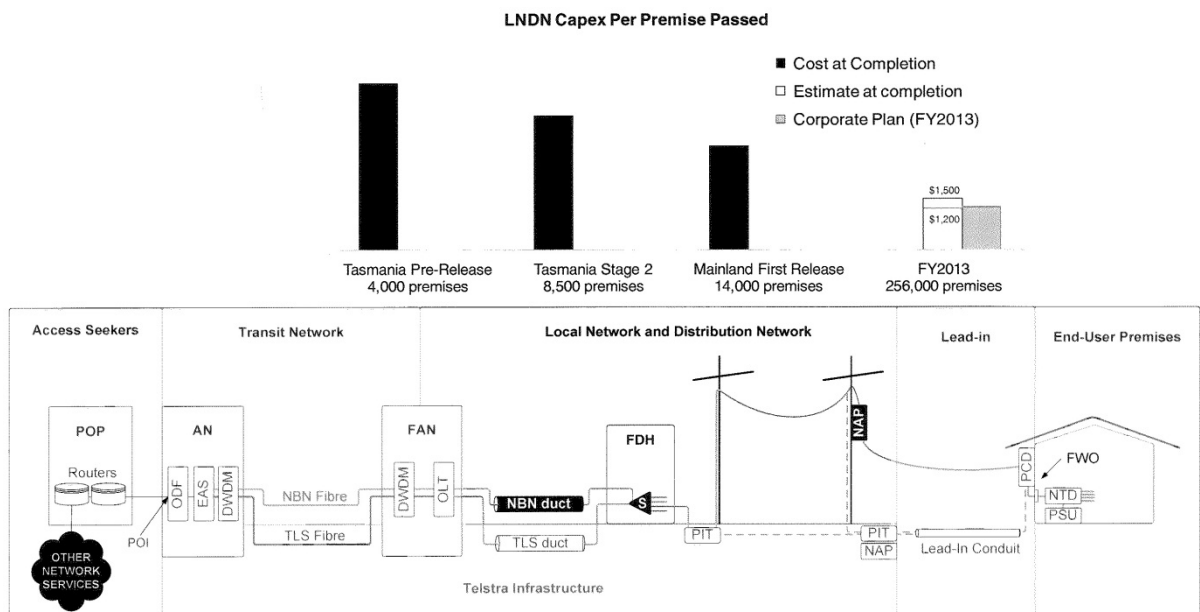
Robert Oakeshott MP
Chair
26 February 2013



Dissenting Report by Coalition Members and Senators

1 Lack of Transparency on NBN Build Costs

- The capital cost of the NBN fibre roll out per premise is the single most important determinant of the implications of the Government's policy for end user broadband and telephony prices over time.
- In the October Joint Committee on the NBN hearing and again in February estimates, NBN Co presented an indicative breakdown of the cost per premise passed of the fibre local network and distribution network. Indicative costs have been provided for the rollout so far, and for what NBN Co forecasts costs per premise will be in 2013.
- The relevant slide is included below:



- While these slides provide at least some information, it is important to note the data that matters – on premises which have been completed – is not transparent. On the contrary it is deliberately imprecise. The graphs suggest per premise costs are coming down. But they do not provide dollar figures for what actual costs have been incurred so far during each phase of the rollout, nor how these compare to the originally budgeted figures.
- The most important capex cost information (the estimate for the ‘volume rollout’ which will account for most fibre deployed) is just a prospective estimate – there is no real world data provided.
- The graph does allow a rough comparison of capex costs in each construction phase so far as a multiple of the per premise FTTP cost estimated in the NBN Co Corporate Plan:
 - ⇒ Tasmania Pre Release – 4.125x
 - ⇒ Tasmania Stage 2 – 3.25x
 - ⇒ Mainland First Release – 2.5x
 - ⇒ Volume Rollout (FY2012-13 Forecast) – 1.25x
- In each case the figure is substantially higher than the current NBN Co budget.
- Additionally, the NBN graph provided to Parliament does not in fact provide a comprehensive estimate of per premise costs for NBN Co’s FTTP. Rather it is an estimate of costs across a portion of the fibre network – the local network and distribution network; in layman’s terms, what it’s costing to get fibre from the exchange to the street corner.
- The figures thus exclude the capex associated with running fibre through the lead-in conduit (or overhead from a pole) or equipment and installation costs associated with terminating the network at the end-user premises.
- The NBN has also responded to a question on notice regarding the cost per premise of the NBN’s fibre network by refusing to detail costs. In its response, NBN Co stated:

“NBN Co’s Chief Financial Officer, Mr Robin Payne, provided information relating to cost per premises and cost trends at the JCNBN hearing on 30 October 2012 (Hansard pp.6-7). Also, Mr Quigley has previously provided information about why cost-per-premises figures can be commercially sensitive, particularly when

construction procurement processes are underway. Please see October 2011 JCNBN Hearing Hansard pp. 21-22.”¹

- The fully allocated capital cost of FTTP per premise is both crucial to the economics of the network and highly variable. Evidence from other markets suggests the average figure over a substantial deployment can be as little as <\$500 in the case of fibre rolled out by incumbents in densely populated cities with well maintained and expansively designed underground ducts to >\$5000 in the case of FTTP serving very low density areas or in challenging terrain.
- The 2012-2015 NBN Corporate Plan appears to be predicated on an average capex spend (including full allocation of all capex shared across the NBN’s three networks) of approximately \$2700 per premise within the fibre footprint.
- The Coalition acknowledges some areas of investment will appear high if reported on a current per premise basis, because assets such as the fibre transit network are being built up front but will eventually be amortized over larger numbers of premises than at present. Any resulting distortions can be corrected by explicitly breaking capex into shared and per premise components, and making transparent, reasonable assumptions about amortization of the former.
- NBN Co has chosen not to release any of this information either to Parliament or taxpayers. Therefore at present there is no visibility into whether NBN Co’s capex estimates are plausible or not.
- The bottom line is that Australia’s largest infrastructure project in history is a black box. The Gillard Government and NBN Co are simply refusing to disclose the actual evidence on deployment costs that must surely exist in robust form after running fibre past 82,000 premises. Taxpayers funding the project have every reason to question why they would not be provided with this data.
- The right hand bar of this slide is labelled “FY2013 256,000 premises’ and shows two numbers, \$1500 and \$1200. When read in conjunction with the other (unlabelled) bars showing much higher capex per premise at earlier stages of the rollout, the slide is evidently intended to convey the impression that capex per premises passed will be in the range \$1200-1500 by the end of FY2013.

¹ NBN Co, (2013), “Answers to Questions on Notice, Public Hearing 30 October 2012”, Question 356

- During the hearing officials of NBN sought to reinforce the impression that the capex per premises passed would be reduced to this level by quoting the experience of Chorus in New Zealand.

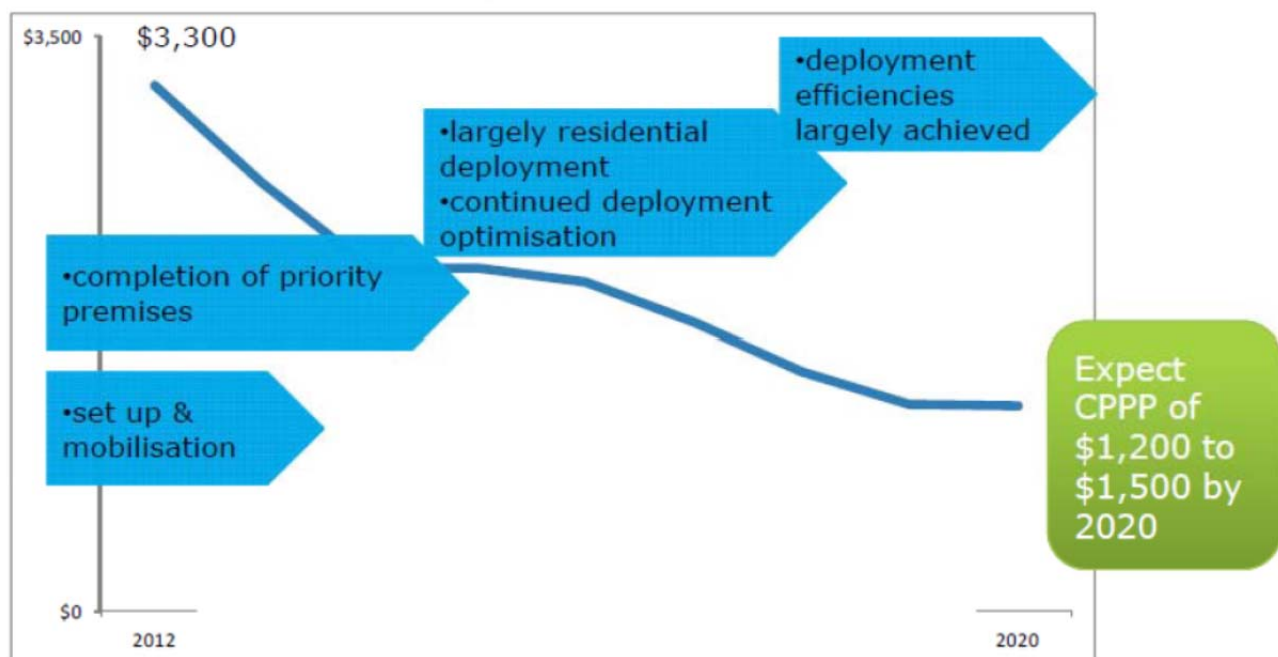
Mr Quigley: What is very important for the committee is the number on the right. Obviously, what is important is that it has come down substantially. There were low numbers to start with. With the number on the right we are saying that with our corporate plan – as you can see in the yellow there – given our best estimate now and given all the data we have, that we are confident that we are going to come in for FY2013 between \$1,200 and \$1,500 for this component of the cost per premise passed, which is consistent with the data you would have seen in New Zealand.

Mr Payne: I think that Chorus from New Zealand have fairly recently published data showing that cost per premise is falling from around \$3,300 last year to \$2,700, \$2,900 this year. They are targeting, I think, around \$1,200 to \$1,500 in the long run.²

- In September 2012 Chorus published a document showing it expects connection costs per premises to fall³. It shows a current cost per premises of \$3,300 – and it not dropping to a rate of \$1200-1500 until 2020.

² Hansard, Committee Hearing, Tuesday October 13 2012, p 6

³ Chorus, (2012), “Chorus Investor Slideshow: September 2012”, p.32



- Coalition members consider that it is misleading of Mr Quigley to suggest that the experience of Chorus in New Zealand supports NBN Co's forecast of reaching a cost per premises passed of \$1200 to \$1500 by the end of FY2013. On the contrary, the Chorus experience suggests that it will take many years, and a rollout volume substantially higher than NBN Co has achieved, before it is able to reduce the cost per premises to this level.
- It is also worth bearing in mind that labour costs in New Zealand are materially lower than they are in Australia.

Recommendations

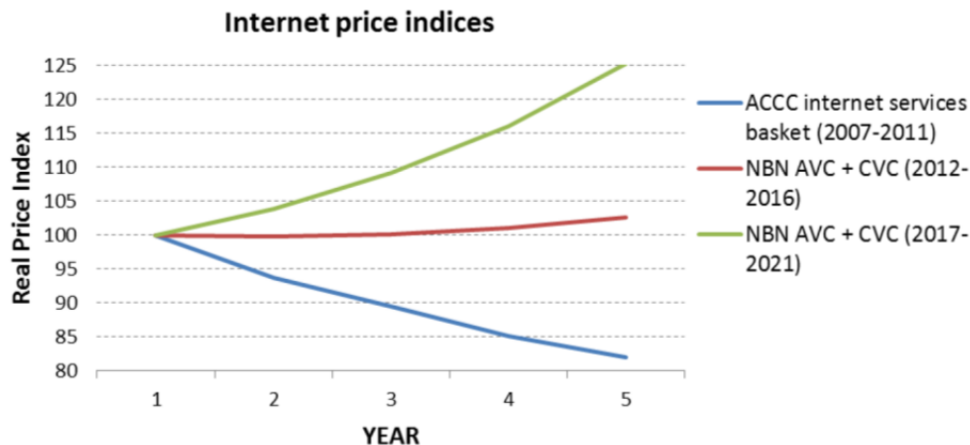
- NBN Co to immediately publish full capital expenditure figures per premise (including all direct costs of the relevant network, and an explicit and transparent allocation of transit and other shared or indirect capital costs between currently passed and future premises) for:
 - ⇒ The cohort of premises passed with fibre in brownfield areas.
 - ⇒ The cohort of premises passed with fibre in greenfield areas.
 - ⇒ The cohort of premises covered by the fixed wireless network.

- NBN Co should also provide a comparison against the assumed costs contained in the 2012-15 Corporate Plan and should publish trends in cost over time so that it is able to assess the extent to which the NBN Co's 'learning curves' have led to gains.

2 Telcos Raise Concerns Over Proposed NBN Price Hikes

- Modelling conducted by Optus and submitted to the ACCC suggest that under the current Special Access Undertaking proposed by the NBN Co to the ACCC, it is likely that there will be significant fixed line price increases after a long period of falling prices.
- Assuming fixed broadband usage (in terms of data volumes) increases by around 28 per cent per year which is its current trend, Optus found the SAU and NBN Co's proposed pricing will drive a 32.3% increase in real prices for end users over the next decade⁴.

FIGURE 3



- Telstra wrote to the ACCC stating that if usage grew 1 per cent per year, prices would rise 3 per cent, but "using the more realistic assumption that usage increases by 30 per cent per annum, the CAGR for the basket of AVC and CVC services purchased by end-users is 19

⁴ Optus, (2012), "Optus Submission to the ACCC Consultation Paper", p.56, available online at [http://www.accc.gov.au/content/item.phtml?itemId=1099505&nodeId=1a6f2523b5c77adccaa1eb46da666601&fn=Optus%20submission%20-%20SAU%20consultation%20paper%20\(18%20January%202013\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=1099505&nodeId=1a6f2523b5c77adccaa1eb46da666601&fn=Optus%20submission%20-%20SAU%20consultation%20paper%20(18%20January%202013).pdf)

per cent”⁵. The monthly price of wholesale broadband (across a basket of plans) would rise from \$28 in 2013 to \$145 in 2028.

- Additionally, it is concerning to Coalition members that the NBN Co has explicitly acknowledged that its current prices reflect neither its costs, nor the charges needed to recover its reasonable costs and make the return on invested capital that has been claimed by the Government.
- On January 14, 2013, the NBN Co’s General Manager Engagement and Group Coordination Richard Home stated in a letter lodged with the ACCC: “The initial prices (as set out in the SAU) were developed in consultation with access seekers so as to enable a smooth transition for end users from legacy networks to the NBN. As such the initial prices are not the result of modeling of NBN Co’s costs and demand and NBN Co has been very clear on this in its consultation with access seekers.”⁶
- The implication of this admission for consumers is that the Government’s frequent assertions that prices for ADSL2+ equivalent services over the NBN will remain at current levels have no basis in economic reality.

Recommendations

- That the Government submit the NBN project to a rigorous cost benefit analysis.
- That such an analysis include credible estimates of construction costs that incorporate actual construction data, credible estimates of revenues given current trends in the global telecommunications market, and the resulting implications for end user prices given NBN Co’s currently proposed SAU and pricing.

⁵ Telstra, (2012), “Telstra Submission to the ACCC Consultation Paper”, pp.67-68, available online at

[http://www.accc.gov.au/content/item.phtml?itemId=1099509&nodeId=9529f1bc961b9371229b6e5a6fecccfa&fn=Telstra%20submission%20-%20SAU%20consultation%20paper%20\(18%20January%202013\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=1099509&nodeId=9529f1bc961b9371229b6e5a6fecccfa&fn=Telstra%20submission%20-%20SAU%20consultation%20paper%20(18%20January%202013).pdf)

⁶ NBN Co, (2013), “NBN Co Special Access Undertaking”, available online here:

[http://www.accc.gov.au/content/item.phtml?itemId=1097798&nodeId=74050df7815c2c03116ed42b59af5d51&fn=Letter%20from%20NBN%20Co%20-%20Response%20to%20Optus%20on%20request%20for%20financial%20data%20\(14%20January%202013\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=1097798&nodeId=74050df7815c2c03116ed42b59af5d51&fn=Letter%20from%20NBN%20Co%20-%20Response%20to%20Optus%20on%20request%20for%20financial%20data%20(14%20January%202013).pdf)

- That the Government investigate means of delivering super fast broadband that permit a more prudent level of investment, and hence less pressure from NBN Co for regulatory settings that enable aggressive uplift and recovery of costs through rapid increases in real revenue per user.

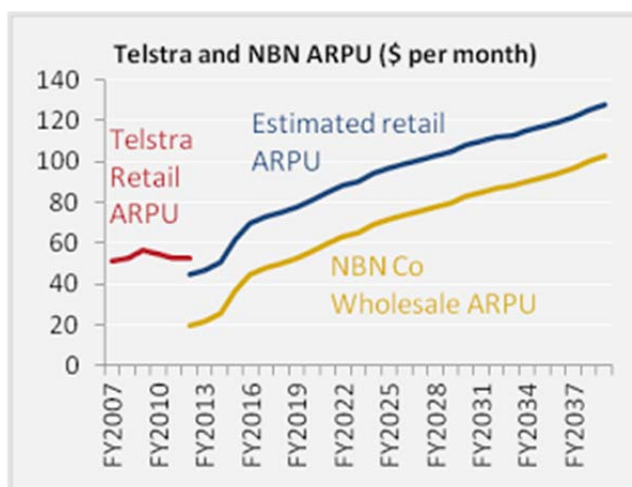
3. Analysts Question Whether Corporate Plan Revenues Achievable

- In August 2011 RBS analyst Ian Martin wrote in the *Telecommunications Journal of Australia*⁷ that NBN Co's corporate plan appeared risky if taken at face value. Risks to the Corporate Plan included cost blowouts building the NBN; and the danger NBN Co may not meet its take-up targets (exacerbated by a very low forecast of 'wireless-only' households in 10 years time).
- Other analysts have raised concerns that the NBN will not be able to reverse the global telecommunications trend of the past decade which has seen nominal revenues flatline despite huge increases in speeds and data offered to customers.
- For instance, in August 2007 TPG offered an 18GB cap at \$49.99. In 2013 it offers a 500GB cap at \$49.99. Users have enjoyed more and more data for the same price.
- NBN Co, in contrast, expects to lift monthly wholesale revenue from \$24 in FY2012 to \$63 in FY2021.⁸ Adjusted for inflation, revenue per user more than doubles in nine years.
- UK analyst Robert Kenny recently wrote: "They [NBN Co] expect consumers to be willing to pay substantially more to get higher speeds, with a result that the typical user increases their spend by about 70% over the next decade. While it is intuitive that consumers might pay more for higher speeds, as we have seen historically they haven't had to."⁹

⁷ Martin, I., (2011), "A Significant Gap in the NBN Corporate Plan", in the *Telecommunications Journal of Australia*, Vol 61, No 3.

⁸ NBN Co, (2012), "Corporate Plan, 2012-15", p.69

⁹ Kenny, R., (2012), "NBN Co's Bold Assumptions on Australians' Willingness to Pay", available online at: <http://commsthought.blogspot.co.uk/2012/11/nbn-cos-bold-assumptions-on->



- There are also questions about NBN Co's projected revenues vis a vis the likely future size of the entire Australian fixed line broadband and telephony market.
- Deutsche Bank analyst Vikas Gour¹⁰ in October 2012 released research implicitly suggesting NBN Co's actual revenues could be below estimates. He forecast four retail service providers (Telstra, Optus, TPG and iiNet) with 96 per cent of the market in FY2024 would pay \$3.8 billion to NBN Co in access fees that year.¹¹
- Yet the NBN Co 2012-2015 Corporate Plan projects revenues of \$6.2 billion in FY2021 and \$9.8 billion in FY2028.¹² This equates to \$7.9 billion in FY2024 if growth is assumed to be linear between NBN Co's two explicit estimates.
- Bluntly, NBN Co's internal estimate of the 2024 fixed line market, which relies on revenue per user increasing 9 per cent above the inflation rate each year over a period of more than a decade, is twice as large as that of a respected securities analyst whose work is subject to close financial market scrutiny.

[australians.html](#)

¹⁰ Deutsche, (2012), "Telecommunications: Leaders and Laggards in an NBN Environment", October 12.

¹¹ Ibid. p.15

¹² NBN Co, (2012), "Corporate Plan, 2012-15", p.72

- A JP Morgan report on Telstra¹³ projects in FY 2020 it will pay NBN Co \$1.7 billion for access and have a retail market share of 39 per cent. That implies access revenue for the whole market of \$4.4 billion. It compares to NBN Co's FY2020 revenue estimate of \$5.2 billion.
- The uncertain economic viability of the NBN is a large potential liability for future Governments. NBN Co Chairman Harrison Young has stated there is no legal requirement to provide taxpayers with a particular return on investment : "Our Shareholder hasn't given us a return hurdle. They've given us a task and asked us to keep them posted."¹⁴

Recommendations

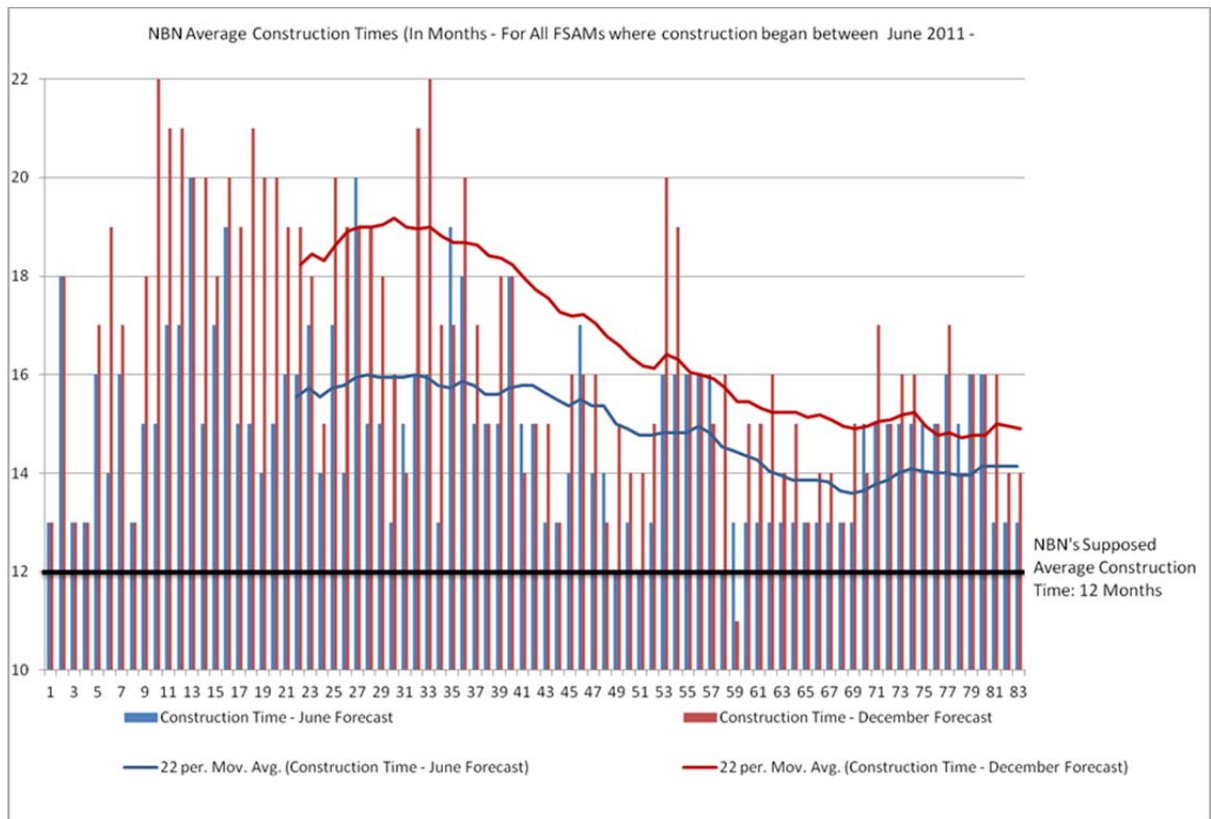
- That the NBN's modelling, analysis and detailed financial projections of its capital and operating costs, and of future end user prices and demand, be made public.

4. Rollout Delays - Problems With Contractor Syntheo

- In 83 FSAMs where construction of the fibre network began between June 2011 and March 2012, there have been extensive delays.
- The 'Monthly Ready for Service' rollout plans published on the NBN website showed that as of June, the estimated construction timeframe to completion was 14.8 months on those 83 FSAMs.
- By December, the average construction timeframe was 16.5 months with the vast majority FSAMs still to be activated.

¹³ JP Morgan, (2012), "Telstra Corporation," December 13.

¹⁴ Young, H., (2011), "The Governance of the NBN", available online at:
<http://www.nbnco.com.au/news-and-events/news/the-governance-of-nbn-co.html>



- At a recent estimates hearing, NBN Co CEO Mike Quigley also said that forecasts for June 30 have had to be revised down:

“You will also notice, if you look carefully there, that we have slightly lowered the number of premises forecast to be passed by the end of June 2013. In October we were forecasting just under 300,000 premises passed; we are now forecasting almost exactly the target of 286,000. The reason for the change is that one of our construction partners has significantly reduced its forecast since we presented back in the October time frame.”¹⁵

- Mr Quigley said that these revisions were due to the contractor for the Western Australia, South Australia and Northern Territory rollout, Syntheo. On 25 FSAMs that Syntheo began construction on between June 2011 and March 2012, not a single one is ready for service.
- Mr Quigley also said NBN Co has already paid its contractor Syntheo pre-payments, as is usual for large construction contracts, and has a

¹⁵ Environment and Communications Legislation Committee, (2013), “Estimates”, February 12, p.100

range of contractual protections against non-delivery but refused to elaborate on them:

“Senator BIRMINGHAM: What contingencies does NBN Co. have in place where contractors fail to meet their targets?

Mr Quigley: We have a range of the usual commercial conditions you would expect in such contracts if a contractor is in default.

Senator HEFFERNAN: Such as?

Mr Quigley: We apply, obviously, penalties. We are not going into details of the contracts.

Senator Conroy: This is a hypothetical question. The company are not in default.

Mr Quigley: No, they are not in default.

Senator HEFFERNAN: Do they get paid in arrears or –

CHAIR: Order, Senator Heffernan! You do not have the call.

Senator HEFFERNAN: I think it is a fair question to ask.

Senator Conroy: You are asking commercial-in-confidence questions.

Senator BIRMINGHAM: What is the nature of payments made to Syntheo? Are there up-front payments made?

Mr Quigley: Yes, there are up-front payments made for mobilisation for all of our construction contractors.

Senator BIRMINGHAM: Can you talk us through the different types of payments that are made?

Mr Quigley: The payments are phased relative to the different phases of the project. There is a design phase, then there is a build phase, and there are various phases in the build. The payments are obviously paid at the different phases, as they are completed.

Senator BIRMINGHAM: What payments have been made to Syntheo to date in relation to these 25 FSAMs?

Mr Quigley: I do not have that number with me. There have obviously been some payments made for the designs of each of those FSAMs and some mobilisation payments. I could not give

you the number off the top of my head. I would have to take that one on notice.”¹⁶

Recommendations

- The NBN Co and Government should urgently explore ways of speeding up deployment of super fast broadband.

5. NBN Struggling to Connect to Multi Dwelling Units

- In May 2011, the NBN Co put out a request for proposals for MDU cabling. The RFP stated the NBN was looking for companies to carry out “installing fibre cabling and equipment within common areas of existing MDUs using pre-supplied detailed designs and bills of material”¹⁷.
- As of October 2012, the NBN had still not signed contracts to connect MDUs. At a public hearing into the NBN, the NBN Co’s Chief Operating Officer Ralph Steffens said:

“**Mr Steffens:** We are in trials with a number of contractors. We are about to award the contracts for the MDUs.

Mr TURNBULL: Yes. Can you tell us who those contractors are?

Mr Steffens: No, because we have not concluded it. The number of MDUs passed I would need to take on notice.”¹⁸
- Mr Steffens also said that the NBN Co has a particular problem with mapping information when it comes to MDUs: “It varies dramatically, not only between the geography but also between the types of premises. Multi dwelling units are typically a lot more inaccurate than single-dwelling units. It is a significant percentage, but there is a huge variety between the geographies.”¹⁹
- The NBN noted in its 2012 corporate plan that the difficulty in connecting MDUs has led to increased capital costs: “NBN Co’s

¹⁶ Environment and Communications Legislation Committee, (2013), “Estimates”, February 12, p.109

¹⁷ <http://www.nbnco.com.au/working-for-us/tenders/a092-rfp-mdu-cabling-contractors.html>

¹⁸ Joint Committee on the NBN, (2012), “Public Hearing”, October 30, 2012, p.18

¹⁹ Joint Committee on the NBN, (2012), “Public Hearing”, October 30, 2012, p.4

experience in initial deployment sites has highlighted the challenges for connecting premises in MDUs and additional costs have therefore been embedded in the 2012-15 Corporate Plan.”²⁰

- The NBN stated in an answer to questions on notice that only a very small percentage of MDUs passed have been connected:

“As at 7 December 2012, more than one-third (35 per cent) of Brownfields residential MDUs passed by the NBN either had an active service or were able to order an active service. The definition of MDUs (refer page 93 of the NBN Co Corporate Plan 2012-15) ranges from duplex type premises to 200 plus unit apartment blocks. NBN is currently trialling different connection methods in MDUs nationally in First Release Sites. The learnings from these trials to date have led to some revisions in the scope of work to connect these premises in a more efficient and cost effective manner. Many require a bespoke solution different to single-dwelling units (SDUs) and this has resulted in some delays in servicing these premises. NBN Co is working with the industry to provide regular information to MDU owner's corporations and residents ahead of connections. NBN Co is currently in negotiations with a number of specialist contractors to supply project management, design and installation of fibre into these premises. Field work commencement is imminent.”²¹

- The NBN also stated: “As at 7 December 2012, there were 137 active connections in brownfields residential MDUs”.²²
- Two weeks later, the NBN Co issued a press release which claimed the network had connected an additional 100 MDUs in just two weeks: “So far NBN Co has rolled out the network to 237 residential MDUs across Australia, with work underway on a further 131.”²³
- On December 21, 2012, the NBN Co signed a contract with construction firm Downer EDI and Universal Communications Group Limited to service MDUs. The contracts were worth \$87 million in total and will

²⁰ NBN Co, (2012), “Corporate Plan, 2012-15”, p.14

²¹ NBN Co, (2013), “Answers to Questions on Notice, Public Hearing 30 October 2012”, Question 78

²² NBN Co, (2013), “Answers to Questions on Notice, Public Hearing 30 October 2012”, Question 79

²³ NBN Co, (2012), “NBN Co signs contracts to connect flats and units to the NBN”, available online at

<http://www.nbnco.com.au/news-and-events/news/nbn-co-signs-contracts-to-connect-flats-and-units.html>

cover 17,600 blocks of apartments across four states and territories over the next two years.²⁴

- The NBN has also created a national register for Multi Dwelling Unit strata managers to coordinate connections to the network²⁵.
- However, it is of concern that the NBN has still not signed contracts to connect MDUs in Western Australia, South Australia and the Northern Territory.
- It is also unclear whether the 17,600 blocks of apartments will cover the entire network build over the next two years. The NBN Co has forecast that it will pass 1.1m premises by the end of June 2014 in the fibre brownfields footprint and will pass 178,000 premises in the fibre greenfields footprint.
- The NBN implementation study found that MDUs account for 34 per cent of premises in Australia²⁶. There are 431,000 buildings with 2-5 premises, accounting for a total of 1.135m premises. There are 119,000 buildings with 5-25 premises, accounting for a total of 1.268m premises. And there are 20,000 buildings with 25 or more premises, accounting for a total of 1.211m premises.
- NBN Co's current contracts cover only 3 per cent of Multi Dwelling Unit buildings in Australia.

Recommendations

- The NBN is to publish a register of all MDUs already 'passed' by the network, but which are unable to connect to the network, to allow residents and body corporates to see when services will become available.
- If an MDU building cannot connect to the network, those figures should be excluded from the figures reported as 'premises passed'.

²⁴ NBN Co, (2012), "NBN Co signs contracts to connect flats and units to the NBN", available online at <http://www.nbnco.com.au/news-and-events/news/nbn-co-signs-contracts-to-connect-flats-and-units.html>

²⁵ NBN Co, (2013), "Helping to Connect Apartments to the NBN", available online at: <http://www.nbnco.com.au/blog/connecting-apartments-mdus-nbn.html>

²⁶ McKinsey, (2009), "NBN Implementation Study", p.79

- The NBN should immediately investigate international experience of connecting MDUs using existing internal wiring, including Fibre to the Basement.
- The Shareholder Minister's Statement of Expectations to the NBN Co should be amended so that the NBN Co is no longer expected to terminate the fibre at each individual premises. The NBN Co should be given scope to terminate the fibre at an appropriate distance from the end user's premises, as would still allow the delivery of very fast broadband.

6. NBN and DBCDE Spending Excessively on Advertising Without Measuring Effectiveness

- In May 2012 estimates, the NBN claimed its overall marketing spend for 2011-12 would be \$8.12 million.²⁷
- Yet in its annual report, the NBN listed 'Communication and marketing campaigns' as having cost \$11.226 million in 2011-12²⁸. This represents a 38 per cent blowout in what was reported to Estimates in May.
- Recent media reports revealed various Government departments have spent \$29 million on NBN-related advertising since 2010 and that the Department is planning a further \$20 million spend in 2012-13²⁹.
- The NBN has stated that its media expenditure is forecast to be approximately \$11.9 million for 2012-13³⁰.
- Given that the NBN is forecasting 78,500 net subscriber gains in 2012-13, this level of expenditure appears excessive. For each new customer, the NBN Co will spend more than \$150 on advertising and the DBCDE will spend more than \$250 on advertising.

²⁷ Estimates, May 24, pp.178-179

²⁸ NBN Co Annual Report, 2011-12, p.79

²⁹ Battersby, L., (2012), "Critics Attack Plan to Spend More on NBN Advertising", available online [here](#).

³⁰ NBN Co, (2013), "Answers to Questions on Notice, Public Hearing 30 October 2012", Question370

- It is also important to note that the NBN is not selling services direct to consumers. So the NBN's advertising is on top of the money spent by RSPs who ultimately form the relationship with individual customers.
- In addition, the NBN Co employs 52 staff in its media/communications division³¹. As at June 30, the NBN Co's entire staff headcount was 1,674³², so the proportion of media and communications staff is very high.
- By comparison, ACMA employs 15 media and communications staff members, the DBCDE employs 23 media and communications staff and the Department of Education, Employment and Workplace Relations employs 51 media and communications staff³³.
- It is also alarming that Senator Stephen Conroy continues to misrepresent the NBN Committee's unanimous support for the advertising campaign. In October Estimates Senator Conroy said: "The additional opex is also in part due to increased resources at NBN Co. for public information campaigns – something you personally supported in the joint parliamentary committee, as did Mr Turnbull. Let us not forget that that was your recommendation, and NBN Co. has done just that."³⁴
- In fact, nothing could be further from the truth. In the Third Progress Report on the NBN issued by the Joint Committee, Coalition members issued a dissenting report which included a recommendation stating: "The Government and NBN Co conduct a review of its advertising spending for effectiveness and measure this against uptake and other relevant metrics. Expenditure should be reduced unless it can be demonstrated as providing value for money. The NBN Co should refrain from advertising Stage One of the fibre rollout in suburbs and

³¹ NBN Co, (2013), "Answers to Questions on Notice, Public Hearing 30 October 2012", Question389

³² NBN Co, (2012), "Annual Report", p.24

³³ Berkovic, N., (2012), "PM's \$150m Spin Doctor Brigade", in *The Australian*, available online at: <http://www.theaustralian.com.au/media/pms-150m-spin-doctor-brigade/story-e6fgr996-1226448739077>

³⁴ Estimates, October 16, p.127

regional areas which have not been included in the Stage One schedule”³⁵.

- Announcing an additional \$15 million spend by the Government in 2012-13, the *Age* reported Joint Committee chairman Rob Oakeshott said the committee did not recommend more advertising and the upcoming campaign would have to be a "much better standard of advertising than we have seen to date" to justify the \$14.7 million price tag. He said the last NBN campaign was “bland, blancmange and shameless ... that in the eyes of many was a waste of money”³⁶.

Coalition Criticism of NBN Advertising Campaigns

- Promotional material was published in regions not included in stage one of the rollout, creating confusion over when the NBN will be available³⁷.
- Much of the material created a false impression that many services and applications that are of public benefit can only be delivered on a fibre-to-the-premise network³⁸.
- There was insufficient focus on pressing public interest issues, such as the decommissioning of the copper network and the lack of RSPs offering services over the NBN’s Uni-V ports.

Recommendations

- The NBN Co and the DBCDE need to measure the effectiveness of their overall advertising and marketing spending, to justify any ongoing increases.
- Both the NBN Co and the DBCDE should conduct research into public perceptions and understanding of key policy issues such as:
 - ⇒ The looming decommissioning of the copper network in areas where FSAMs are active.

³⁵ Dissenting Report by Coalition Members and Senators, available online [here](#), p.137.

³⁶ Battersby, L., (2012), “Critics Attack Plan to Spend More on NBN Advertising”, available online [here](#)

³⁷ See Dissenting Report by Coalition Members and Senators, available online [here](#), p.137.

³⁸ For instance, the ‘Connecting Australia’ newspaper published by the DBCDE. See Turnbull, M., (2012), “The NBN Supports Newspapers. As for the Public Interest...” available online [here](#).

- ⇒ Retail offerings for essential services, such as analogue medical device connections.
- ⇒ A home owners' responsibility in terms of replacing battery back-ups.
- If the research shows deficient community awareness of key public interest topics, the current spending on marketing and promotion of the NBN need to be redirected to address them.

7. NBN Looking to Sign Longer Contract Periods

- It was reported last October that the NBN is investigating extending the contract period for future contracts to fixed four year terms³⁹.
- In recent estimates the NBN refused to comment on current contract negotiations:

Mr Quigley: We are in the process of having discussions with all of our contractors. I cannot give you a date when they will be concluded or contracts signed. Obviously with all of our contracts we look to renewing them as they fall due.

Senator BIRMINGHAM: The initial contracts were on the basis of two year plus one plus one year?

Mr Quigley: With the construction contractors, yes.

Senator BIRMINGHAM: Is NBN Co. looking at a variance to that for the renewables?

Mr Quigley: We may. Until we finish the discussions I cannot give you an answer on that.

Senator BIRMINGHAM: Are reports that you are offering fixed four-year terms for contractors correct?

Mr Quigley: I will not comment on what we may or may not be offering with particular contractors.

Senator BIRMINGHAM: Why is NBN Co. looking at changing its contract periods?

³⁹ Durie, J., (2012), "Quigley Locks in Fast Track Deals", in *The Australian*, October 11, available online at: <http://www.theaustralian.com.au/business/opinion/quigley-locks-in-fast-track-deals/story-e6frg9io-1226493193077>

Mr Quigley: We only look at changing contract periods if we believe there is an advantage to NBN Co. to do so – in other words, we can get the build done with greater certainty and at a lower rate.

Senator BIRMINGHAM: When does NBN Co. need to resolve those contracts by?

Mr Quigley: I suspect we will want to have some of them that are falling due in the middle of this year done before then. We need to renew them before then.”⁴⁰

Recommendations

- The benefits of changing contract terms in the lead up to the September 14 election need to be clearly articulated by the NBN Co.
- The NBN Co and its board should be clearly mindful of a possibility of a change of Government and the need to alter contracts down the contract. The NBN Co and its board should ensure suitable flexibility is written into the terms of future contracts. If this is not possible, then the likely costs of changing and lengthening contract terms need to be weighed against perceived benefits.

8. Lack of Transparency and Accountability in Reporting to the Committee

Take-up Rates

- Take-up rates have a direct bearing on the rate of return for the NBN project, even when taking into account the fact that NBN Co will eventually be the national monopoly wholesale provider of fixed line broadband and voice services. Therefore, accurate and regular reporting of take-up rates is necessary for the Committee to understand the true state of the NBN rollout.
- To date, reporting of take-up rates by NBN Co has been unsatisfactory. NBN Co provided the following response to the Committee, after being

⁴⁰ Environment and Communications Legislation Committee, (2013), “Estimates”, February 12, p.120

asked in September 2012 to provide daily activation rates for the NBN fibre network:

“NBN Co has not done this calculation as it is not meaningful at this stage of the roll-out based on a number of factors impacting the calculation including the time taken to finalise the Definitive Agreements. With the Definitive Agreements now unconditional and NBN Co able to ramp up the rollout of the NBN fibre network, NBN Go's 2012-15 Corporate Plan is forecasting a daily run rate for FY2013 of up to 201 (pg 37 refers) for fibre premises connected.⁴¹

- NBN Co bills RSPs for each customer they connect to the NBN network, so it is extremely unlikely that NBN Co cannot provide accurate and timely figures for the number of customers connected to the network in a given period of time. Indeed, if it cannot provide such figures, the Committee is entitled to ask how the company is accurately billing RSPs.

Combining ISS and Wireless in Premises Passed/Covered Figures

- NBN Co has at times included premises passed by the NBN Interim Satellite Service (ISS) with premises passed by the wireless network when reporting to the Committee.⁴² Combining premises passed figures for the ISS and wireless networks does not allow the Committee to develop a clear picture of how the network rollout is progressing.

Inaccurate and Delayed Answers to Questions

- NBN Co has, on many occasions, failed to either answer questions accurately or to provide answers within the requested timeframe, or both. This failure to provide timely and accurate answers to questions severely hampers the Committee's ability to properly report to Parliament on the progress of the NBN project, as required by the Committee's Resolution of Appointment.
- By way of example, Mr Hartsuyker placed questions 19 and 20 on notice following the public hearing on 16 April 2012. The questions related to additional costs incurred by NBN Co to prepare the Bonnyrigg greenfields development in western Sydney for fibre

⁴¹ JCNBN Answers to Questions in Writing (17 September 2012), Question 7

⁴² JCNBN Answers to Questions in Writing (17 September 2012), Questions 1-5

installation. NBN Co provided answers in early June, which were not entirely accurate. The Committee sought clarification from NBN Co on 26 June 2012. The Minister responded on 10 August with new information, some of which contradicted the initial answers given by NBN Co. The Committee sought further clarification about the contradictory answers on 16 August, with a final response received by the Committee on 20 August 2012. The outcome of this series of events was that it took four months to obtain accurate answers to a small number of relatively straightforward questions.

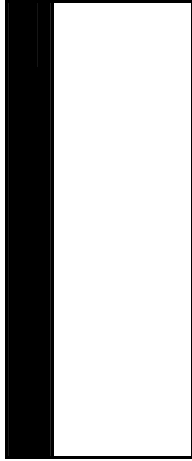
- As a result of the example above, and other instances of inaccurate or delayed responses from NBN Co, it is difficult not to conclude that NBN Co and the Shareholder Ministers are at best seeking to avoid scrutiny of the NBN project, or at worst, systematically limiting the Committee's ability to carry out its functions effectively.

Recommendation

- NBN Co provide the JCNBN with a standard monthly progress report not more than ten days after the end of each month, setting out the number of premises passed in the previous month by the fibre network, the number of premises passed in the previous month by the wireless network, and the number of premises that were connected to the network on each of the fibre, wireless, and satellite networks, and at what speed tier.

Hon Malcolm Turnbull MP
Member for Wentworth

on behalf of the Coalition Members of the Joint Committee
on the National Broadband Network



Report on the Committee's Visit to New Zealand

Introduction

The reciprocal Australia New Zealand Parliamentary Committee Exchange Program (NZCEP) has operated on an annual rotational basis between the respective Australian and New Zealand Parliaments since 1989. In addition to bringing together Members of Parliament from both countries to discuss apposite issues of mutual interest, the NZCEP contributes to consolidating the existing Australia-New Zealand economic and diplomatic relationship.

Although a newly established committee in the 43rd Parliament, the Joint Committee on the National Broadband Network (the committee) eagerly welcomed the opportunity to represent the Australian Parliament in the 2012 NZCEP to learn about the New Zealand experience in developing its high speed broadband network. The committee was also pleased to offer its views on the Australian experience in development and implementation of the National Broadband Network (NBN).

The committee undertook the 2012 NZCEP from 24 to 28 September and met with a range of private sector, government officials and parliamentarians, including the Commerce Select Committee and the Speaker of the New Zealand Parliament. The committee also undertook a half day inspection of fibre and copper broadband network infrastructure, including a central exchange.

This delegation report contains a summary of the information presented to Members and the associated issues discussed during the 2012 NZCEP.

Visit Objectives

The objectives of the 2012 NZCEP were to:

- Reaffirm existing links with the New Zealand Parliament
- Establish links with the Commerce Select Committee, selected private sector organisations and Government agencies responsible for delivery of New Zealand's high speed broadband network
- Gain a practical insight into the workings, policies and funding arrangements underpinning the Ultra Fast Broadband and Rural Broadband Initiatives. In particular to explore:
 - ⇒ The mix of technologies incorporated in New Zealand and the rationale for technology selection;
 - ⇒ The logistic, budget and time implications of selected technologies and the possible impact on subsequent wholesale products and potential retail service provider take up;
 - ⇒ Associated telecommunications regulatory issues in relation to the demerger of Telecom New Zealand (Telecom NZ);
 - ⇒ Wholesale pricing issues;
 - ⇒ Community consultation and community education strategies;
 - ⇒ Government, corporate and community readiness;
 - ⇒ Existing employment and skilling issues.

Visit Program

Meetings

The delegation commenced its visit program in Auckland where it met with the National Industry Organiser, Telecommunications of the New Zealand Engineers, Printers and Manufacturers Union and discussed labour force issues such as potential skilling opportunities, future employment demand and supply for construction of the high speed broadband network, and skilled workers being lost to Australia as part of its higher income and demand for the NBN build.

The committee also met with representatives of Crown Fibre Holdings Limited (CFH), which is responsible for the management of New Zealand's high speed broadband network, with the telecommunications company building the wireless network under the Rural Broadband Initiative (RBI): Vodafone New Zealand (Vodafone).

Finally the committee met with Northpower Fibre Limited (Northpower), one of four local fibre companies tasked with building part of the fibre network under a

public-private partnership arrangement with CFH as the company representing the New Zealand Government.

In Wellington, the committee met with former and present Ministers responsible for the establishment, policy development and current build of New Zealand's high speed broadband network and associated public service departments and agencies such as the: Ministry for Business Innovation and Employment, Treasury, and Ministry of Education.

The committee also met with the Commerce Select Committee and former Chair and members of the Finance and Expenditure Select Committee which inquired into the draft legislation underpinning the reform of the New Zealand Telecommunications industry, including the demerger of Telecom NZ.

The committee gained an appreciation of the broader regulatory processes surrounding the establishment and build of the New Zealand fibre network by meeting with the Commerce Commission which is the equivalent of the Australian Competition and Consumer Commission.

The committee also met with Chorus which was formerly the network arm of Telecom NZ prior to its voluntary demerger.



NZ Figure 1

Delegation Members in front of the New Zealand Parliament Building



NZ Figure 2 Delegation Members with Dr the Rt Hon Lockwood Smith MP, Speaker



NZ Figure 3 Delegation Members with Hon Craig Foss MP, Minister of Commerce and Broadcasting and former Chair, Finance and Expenditure Select Committee

Infrastructure Inspections

The committee undertook a half day inspection of newly built and installed fibre network components and existing copper network infrastructure at the Wellington Central Exchange and at the Churton Park subdivision respectively.

As part of these inspections, the committee was shown the internal components of a newly built fibre cabinet that premises and households may elect to connect to and receive high speed broadband. The committee was also shown the existing cable television infrastructure and copper network broadband infrastructure located within 100 metres of the fibre network cabinet.

As the committee had previously inspected NBN infrastructure, Members were able to compare the visual impact and also gain a basic understanding of the practical component parts of New Zealand's cabinetisation infrastructure of its fibre network in relation to its existing copper network.

The 2012 NZCEP official program is attached at the end of this delegation report.



NZ Figure 4 Delegation Members at the Wellington Central Exchange



NZ Figure 5 A Chorus representative showing the cabinet infrastructure supporting the copper and fibre networks

New Zealand's High Speed Broadband Initiatives

Background

In September 2009, the New Zealand Government announced that it would provide up to NZ\$1.5 billion to fund the rollout of a high speed broadband network or Ultra Fast Broadband Initiative (UFB). The New Zealand Government implemented its UFB policy to:

...improve productivity in the economy, New Zealand's global competitiveness and the lives of New Zealanders. To this end it has put in place the Ultra-Fast Broadband Initiative to assist and encourage the private sector to invest in early deployment of fibre, with a particular focus on sectors that are expected to yield the greatest productivity benefits.¹

The UFB is also expected to improve social policy outcomes for education and health.²

The high speed broadband network policy would be realised through the combination of the Ultra Fast Broadband Initiative (UFBI) and Rural Broadband Initiative (RBI).³

The UFB and RBI will be rolled out over a ten year period (due for completion in 2019) and are intended to reach 75 per cent of New Zealanders to provide download speeds of at least 100Mbps and upload speeds of up to 50Mbps through the combination of a fibre-to-the-premise⁴ and fibre-to-the-node network⁵. Priority for network rollout for the first six years (ending 2015) is for: broadband users such as businesses, schools and health services, as well as Greenfield developments and certain areas of residential areas. The UFB will be rolled out to urban and suburban residential areas gradually with completion expected by 2019.

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- 1 Ministry of Business, Innovation and Employment, Ultra Fast Broadband Initiative, Government Policy Statement, Extract from New Zealand Gazette, 13 October 2011, No. 155, p. 4440, <www.med.govt.nz>
 - 2 Crown Fibre Holdings, Ultra Fast Broadband Update: Briefing to Australian National Broadband Network Committee, 25 September 2012, p. 3.
 - 3 Both initiatives include a combination of fibre-to-the-premise and fibre-to-the-node as well as wireless connections.
 - 4 Fibre-to-the-home and fibre-to-the-premise are interchangeable terms where fibre is deployed directly to each premise or home.
 - 5 Fibre-to-the-node allows for fibre to be deployed to centrally located cabinets off which premises may then be connected.

Funding Arrangements for Fibre Network Build

The network is being funded through a combination of public-private partnership⁶ and joint venture arrangements between the New Zealand Government and its UFB partners. The Government established Crown Fibre Holdings Limited (CFH)⁷ to manage its investment in UFB infrastructure and manage and monitor the rollout of the UFB by local, partner fibre companies (Local Fibre Companies).⁸ Crown Fibre Holdings has negotiated agreements with four providers to connect fibre to different regions and be directed to create open access infrastructure. These four companies are:

- **Chorus Limited** (formerly the network arm of Telecom NZ)⁹ responsible for 69.4 per cent of total UFB coverage
- **Enable Services Limited** responsible for 15.3 per cent of UFB total coverage
- **Waikato Networks Limited** responsible for 13.7 per cent of UFB total coverage
- **Northpower Fibre Limited** responsible for 1.6 per cent of UFB total coverage¹⁰

Chorus Limited (Chorus) was created in December 2011 following the voluntary demerger (or structural separation) of Telecom NZ.¹¹ Crown Fibre Holdings will invest NZ\$929 million directly into Chorus with 50 per cent being non-voting shares and 50 per cent interest free loans. For the other three companies, they will each form a joint venture known as a 'Local Fibre Company' (LFC) with CFH.¹²

6 Public Private Partnerships are 'long-term contracts for the delivery of a service, where the provision of the service requires the construction of a facility or asset, or the enhancement of an existing facility. The private sector partner finances and builds the facility, operates it to provide the service and usually transfers control of it to the public sector at the end of the contract.' The Treasury, *Guidance for Public Private Partnerships (PPPs) in New Zealand*, October 2009, p. 1. Governments tend to favour public private partnerships to assist in funding large scale projects and mitigate associated short term project risks.

7 Crown Fibre Holdings was formed as a 'Crown-Owned company' under the Companies Act 1993. It is listed on the fourth schedule of the Public Finance Act 1989 and so is subject to the Crown Entities Act 2004 requirements to prepare a statement of intent and an annual report.

8 Crown Fibre Holding's function is to ensure the implementation of the Government's UFB policy: by managing contracts, monitoring of crown investments, and supporting Government policy objectives. Crown Fibre Holdings, *Ultra Fast Broadband Update: Briefing to Australian National Broadband Network Committee*, 25 September 2012, p. 5.

9 Chorus Limited was the network arm of Telecom New Zealand prior to the structural separation of Telecom New Zealand in December 2011

10 Crown Fibre Holdings, *Crown Partners*, <www.crownfibre.govt.nz>.

11 Telecom New Zealand was the largest telecommunications provider in New Zealand

12 Crown Fibre Holdings, <www.crownfibre.govt.nz>.

Effectively the LFCs will build the fibre network and provide the wholesale platform from which telecommunications retail service providers (RSPs) will be able to seek access and provide an internet service to end users. To foster competition and ensure a more level 'playing field' into the longer term, the wholesale LFCs are prevented from providing a retail service across the fibre network.

Ultra Fast Broadband Initiative

Overview

The UFB will be spread over 33 towns and cities across New Zealand as indicated in the coverage map with the largest population centres selected as the fibre rollout locations. The boundaries of the UFB coverage do not overlap exactly, with the 'UFB being built in the most densely populated parts of metropolitan areas.'¹³

The four LFCs are responsible for the build of the fibre network across the major cities and towns across New Zealand as follows:

- **Chorus** – Auckland, Waiheke Island, Pukekohe, Waiuku, Whakatane, Rotorua, Taupo, Gisbourne, Napier-Hastings, Palmerston, North-Fielding, Masterton, Wellington, Levin, Kapiti, Nelson, Blenheim, Greymouth, Ashburton, Timaru, Oamaru, Queenstown, Dunedin, Invercargill
- **UltraFast Fibre** – Hamilton, Tokoroa, Tauranga, New Plymouth, Hawera, Wanganui
- **Enable** – Christchurch, Rangiora
- **Northpower Fibre Limited** – Whangarei.¹⁴

Deployment, Pricing and Future Demand

As at the end of June 2012 (represents a year of deployment), there were 76 311 premises passed under the UFB.

The pricing offered at the wholesale platform level is creating a situation where pricing at the retail level is currently lower than in the former retail market for ADSL broadband.

13 Crown Fibre Holdings, Where and When is UFB being delivered?, <www.crownfibre.govt.nz>.

14 Crown Fibre Holdings, Where and When is UFB being delivered?, <www.crownfibre.govt.nz>.

In line with international trends, CFH has estimated that as the fibre network build accelerates, demand for faster broadband will increase. Crown Fibre Holdings has estimated residential demand will be driven by 'back-up and cloud based storage, working at and from home, extended school learning, advanced gaming, real-time entertainment, home security and triple play.'¹⁵



Source Crown Fibre Holdings, <www.crownfibre.govt.nz/ufb-initiative/rollout-timetable/>

Rural Broadband Initiative

Overview

In February 2011, following a tender process, the New Zealand Government entered into negotiations with Vodafone New Zealand (Vodafone) and Telecom NZ for the delivery of the RBI. The terms of the final agreement were accepted by the Government on 20 April 2011. Following the demerger of Telecom NZ in December 2011, Chorus Limited (the newly created company from the demerger) retained responsibility for implementation of the RBI.

15 Crown Fibre Holdings, Ultra Fast Broadband Update: Briefing to Australian National Broadband Network Committee, 25 September 2012, p. 16.

Chorus Limited (Chorus) is responsible for the delivery of 'fibre to schools, upgrading the rural network with fibre cabinets and broadband equipment, and fibre to the Vodafone mobile sites.' While Vodafone has created a wireless network for rural areas which is designed to overcome distance and terrain challenges.

Broadly, the RBI is designed to enable 252 000 rural households to receive high speed broadband at prices and levels of service comparable with urban areas. Around 86 per cent of rural households and businesses will receive broadband at peak speeds of at least 5Mbps.

The fibre network will be extended to all rural public schools and hospitals, as well as a large number of rural public libraries. Mobile telephone coverage will also be extended by 6200 square kilometres.

Improvements to access to high speed broadband through the RBI is expected to benefit rural and remote parts of New Zealand by enhancing the efficiency of agri-business (which contributes to two thirds of New Zealand's export income), as well as improve access to health services and education.

Community Consultation

Community consultation for the RBI has been enabled by the LFCs responsible for its rollout. Chorus and Vodafone are meeting with regional and local stakeholders on a six monthly basis to 'build constructive collaborative relationships and identify potential efficiencies and benefits.'¹⁶

In addition, a National Advisory Committee (NAC) was established 'to provide advice and guidance to maximise benefits for rural communities.' The NAC's function is to 'provide feedback on the RBI plans and guidance and advise on a range of issues during the roll out. It will also facilitate collaboration between RBI partners and key rural stakeholders and identify opportunities to raise awareness of the initiative and stimulate demand for rural broadband services.'¹⁷

16 Ministry of Business, Innovation and Employment, Stakeholder Engagement on the RBI Rollout, <www.med.govt.nz>.

17 Ministry of Business, Innovation and Employment, Stakeholder Engagement on the RBI Rollout, <www.med.govt.nz>.



Source Vodafone Rural Broadband Initiative coverage

Reform of the New Zealand Telecommunications Sector

Telecom New Zealand Demerger

Recent reform of the New Zealand telecommunications sector was implemented through the demerger (structural separation)¹⁸ of Telecom NZ. Telecom NZ as the largest fixed line and IT services industry market operator held significant market share and power and in order to participate in the wholesale provision of the new fibre network had to divest itself of its retail component.¹⁹

18 Structural separation 'demands management of network assets through a corporate entity that is distinct from the company that provides retail service. It implies greater complexity, costs and challenges to the coordination of network investment than functional separation which generally marked by ... the creation of divisions and 'the need for Chinese Walls between network provision and the retailing of services within one company.' Morgan K, 2008, *The European Debate About Structural Separation: Possible Implications for Australia*, Telecommunications Journal of Australia, Vol 58, No. 1, Monash University Press.

19 Telecom NZ proposed its structural separation 'to satisfy a government requirement that its partners in a NZ\$1.35 billion broadband project could not also sell telecommunications services.' Withers, T, 2011, *Telecom NZ Shareholders Approve Demerger of Chorus Unit*, Bloomberg, 26 October.

The New Zealand Government's proposed regulatory changes to implement the UFB were conditional on the Telecom NZ demerger. The post demerger Telecom NZ would be subject to less of the previous Telecom NZ-specific regulation allowing it 'to compete on a similar regulatory footing with its market peers.'²⁰

On 26 October 2011 Telecom NZ shareholders approved the demerger of its Chorus²¹ Unit (which became a new entity – Chorus Limited), with the separation day occurring on 30 November 2011.

Chorus then entered into a public private partnership with the New Zealand Government to build the majority of the fibre network²² and provide wholesale services through this network. The value of the investment provided to Chorus by the New Zealand Government is \$929 million.²³ Having divested its network arm, Telecom NZ became a retail service provider after the demerger.²⁴

In its presentation to shareholders, Telecom NZ outlined the benefits of the demerger as:

- 'Facilitates Chorus undertaking a leading role in the Government led fibre initiative
- Aligns the interests of Chorus with the Government's UFB objectives
- Avoids Telecom NZ competing with Government backed fibre competition
- Leads to the introduction of a simplified regulatory regime with greater certainty, reduced burden and less associated cost
- Allows Telecom NZ and Chorus to further focus on their independent strategies and core competencies
- Enables tailored capital structure and financial policies for Telecom NZ and Chorus

20 Telecom NZ, Stock Exchange Announcement, Telecom to Demerge Chorus, 31 August 2011.

21 Under the demerger of Telecom New Zealand shareholders received one share in Chorus Limited for every five shares of Telecom NZ held. Telecom NZ, Demerger Presentation, September 2011, p. 9.

22 Under the public private partnership arrangement, Telecom NZ is responsible for delivering fast internet in 24 of the 33 fibre selected regions including Wellington and Auckland which accounts for 70 per cent of New Zealand, covering 830 900 premises. Telecom NZ, Demerger Presentation, September 2011, p. 7.

23 Telecom NZ, Demerger Presentation, September 2011, p. 7.

24 Withers, T, 2011, Telecom NZ Shareholders Approve Demerger of Chorus Unit, Bloomberg, 26 October.

- Allows for improved alignment of management incentives with performance at Telecom NZ and Chorus
- Provides greater transparency and flexibility for investors.²⁵

Inquiry into the Telecom New Zealand Demerger

Prior to structural reform of the industry, the New Zealand Parliament's Finance and Expenditure Select Committee was referred for inquiry and report the Telecommunications (TSO, Broadband, and Other Matters) Amendment Bill. The Bill would amend the Telecommunications Act 2001 to provide the framework for the Ultra Fast Broadband and Rural Broadband Initiatives, and implement the Government's telecommunications service obligations.

While inquiring into this Bill in an effort to provide parliamentary oversight, the New Zealand Parliament also referred Supplementary Order Paper (No 204) which contained the matter of the Telecom NZ demerger (and associated implementation framework).

The committee gave in principle support to the Bill and accompanying contents of the Supplementary Order Paper with recommended amendments. The main areas of discussion undertaken centred on:

- Pricing to ensure competition and adequate consumer take up to support a fibre network
- Migration of customers to the fibre network
- Attracting private sector financing for the fibre network build
- Regulation of the major industry entities such as Crown Fibre Holdings and the Local Fibre Companies (whether pricing measures should be contained in a special access undertaking or whether to install a forbearance period preventing the Commerce Commission from investigating prices set for supplying the UFB until 31 December 2019).
- Bringing forward the timeframe for review of the policy framework regulating telecommunications services in New Zealand to 2016 and widening the scope of the review to include:
 - ⇒ Consultation with interested parties, the commerce Commission, consumers, and Maori
 - ⇒ Development in wireless technologies

25 Telecom NZ, Demerger Presentation, September 2011, pp 11 and 19 and Telecom NZ, Stock Exchange Announcement, Telecom to Demerge Chorus, 31 August 2011, p. 2.

- ⇒ The experience of comparable jurisdictions such as Australia where appropriate and relevant.

In regard to the TSO inquiry the committee met with the Commerce Select Committee. As a number of members of the Commerce Committee also participated in or had knowledge of the TSO inquiry, through its discussions the committee gained an insight into the types of discussions undertaken during the inquiry.

The committee also met with other previous members of the Finance and Expenditure Committee, two of which are now Ministers, all of whom discussed their experience in undertaking the TSO Inquiry.

Managing the Fibre Network Build and Rollout

The New Zealand Government established CFH in December 2009 to 'ensure the implementation of the Government's UFB policy, specifically:

- 'Manage contracts to deliver the UFB objective
- Monitor Crown investments in the UFB initiative
- Support Government policy objectives'²⁶

This requires CFH to:

- 'Manage contracts, payments milestones, approvals
- Manage Crown risk and financial exposure
- Ensure deployment achieved and prioritised appropriately
- Ensure UFB consistency'²⁷

In this context, CFH discussed:

- the Government mandated UFB rollout target of reaching 75 per cent of premises by 2019
- the investment structure of the UFB
- how fibre network partners will build parts of the UFB
- technologies used in the rollout

26 Crown Fibre Holdings, Ultra Fast Broadband Update: Briefing to Australian National Broadband Network Committee, 25 September 2012, p. 5.

27 Crown Fibre Holdings, Ultra Fast Broadband Update: Briefing to Australian National Broadband Network Committee, 25 September 2012, p. 5.

- current UFB deployment progress
- product pricing and Australia-New Zealand network comparisons and organisational relationships
- Network security

As at the end of June 2012, 76 311 premises had been passed, with a view to having an accelerated rollout over the next seven years to reach over one million premises passed.

Network Partner Companies

The committee met with Northpower and Chorus, two of the LFCs responsible for the build of the UFB. Chorus is the largest LFC building the network to connect 24 of the 33 fibre selected locations and Northpower is the smallest, building the fibre network for one of the 33 selected locations. The committee also met with Vodafone in regard to the build of the wireless network for the RBI and also providing services over the UFB.

Chorus

As New Zealand's largest telecommunications infrastructure company, Chorus discussed how it is preparing to build the majority of the UFB and the planned reach of the UFB. Chorus representatives discussed their experience after a year of build which included:

- extending the fibre network to schools
- extending the fibre network to apartment blocks
- future migration planning and factors and incentives to drive uptake of future demand for fibre
- educating the consumer on the benefits of a fibre connection
- funding arrangements and Universal Service Obligation
- overview of negotiations in reaching an agreement prior to Telecom NZ demerger
- current challenges of building a fibre network while maintaining a copper network
- subsidy structure of connection per premise.

Northpower Fibre Limited

Northpower is a trust owned company with 53 000 shareholders and is the smallest LFC. Northpower discussed its method of build, with 60 per cent overhead and 40 per cent underground and its aim of having a minimal impact on the environment and existing amenity.

Northpower also spoke about the efficiency of its method of build and the low cost of overhead fibre deployment in comparison with the Tasmanian NBN rollout.

Vodafone New Zealand

Vodafone discussed the aims of its RBI rollout and its build of the wireless network expected to reach a greater number of premises in remote areas of New Zealand as well as improve mobile telephony in rural and remote areas. In this context Vodafone discussed or commented on:

- Exploring the span of the satellite option (expected to provide broadband to between 2-3 per cent of New Zealand)
- Size of the wireless network build
- Consulting and working with local government
- Building and pricing of towers
- Number of homes covered per cell site
- Pricing data model and funding arrangements for build
- Interest from RSPs
- Network security

Regulatory Matters

The committee met with the Commerce Commission and discussed a number of matters relating to regulation of the Telecommunications industry and the recent impact of the structural separation of Telecom NZ. In particular issues discussed included:

- Legislative requirements of the Telecommunications Act
- Regulatory implications of the forbearance period and role of the Commerce Commission in relation to the fibre network during this time
- Expected national contribution of the fibre network build and use

- Regulation of the copper network
- Retail and wholesale structure of the UFB
- VoiP services
- Transition from a copper network to a fibre network
- Wholesale pricing framework
- Raising public awareness of the fibre network and services available through such a network

Policy Considerations

The committee also met with a number of Government agencies and discussed the objectives of the policies underpinning the UFB and RBI. Those agencies were the: Ministry of Business and Innovation and Employment, National Infrastructure Unit, Treasury and the Ministry of Education. Areas discussed included:

- Momentum of the UFB and RBI build
- Negotiations over wholesale pricing and RSP offerings
- Measuring the impact of the services on business productivity and getting small businesses on line
- Pricing of the end product
- Level of regulation to maintain competition and uptake in the market
- Considering the need to decommission the copper network
- Cost and logistics of moving from a fibre-to-the-node to a fibre-to-the-premise model
- Creating local employment opportunities
- Improving learning outcomes for students and in particular remote students through use of advanced technologies
- Objective of the School Network Upgrade Project

Concluding Comments

During the course of the 2012 NZCEP, the committee met and spoke with a wide range of parliamentary and industry representatives and organisations, all of which are participating or have participated in contributing to the development, build and regulation of the UFB and RBI. From these discussions, the committee has greatly expanded its knowledge of the types of issues, challenges and short term outcomes that are common to Australia and New Zealand in working towards and building a high speed broadband network.

The committee has also been privileged to be privy to information on which it has not reported, but which was useful in setting the scene for Members to gain an appreciation of the ongoing and future challenges facing New Zealand in the delivery of high speed broadband.

The committee thanks all the individuals and organisations who freely gave of their time and knowledge to discuss topical issues with Members and increase their understanding of the issues currently facing New Zealand in the continuing development and build of the UFB and RBI. The committee also thanks the Hon Amy Adams MP, Minister for Communications and Information Technology, Hon Craig Foss MP, Minister of Commerce, Hon David Cunliffe MP, Spokesperson for Economic Development, Mr Jonathan Young MP, Chair of the Commerce Select Committee and Members of the Commerce Select Committee. To this end, the committee exceeded the objectives of its New Zealand visit as part of the 2012 NZCEP.

Lastly, the committee thanks Dr the Rt Hon Lockwood Smith MP, Speaker of the New Zealand Parliament and His Excellency Michael Potts, High Commissioner for Australia for their hospitality and ensuring the visit was memorable.

Membership of the Delegation

Leader	Mr Robert Oakeshott MP
Deputy Leader	Mr Rob Mitchell MP
Members	Senator Doug Cameron Mr Paul Fletcher MP Senator Alex Gallacher Mr Luke Hartsuyker MP Hon Sussan Ley MP Mr Mike Symon MP
Delegation Secretary	Ms Stephanie Mikac

Official Visit Program

Tuesday, 25 September

8.00 am	Meeting with the Engineering, Printing and Manufacturing Union
9.00 am – 10.00 am	Meeting with Crown Fibre Holdings Limited
10.15 am – 11.15 am	Meeting with Vodafone New Zealand
11.30 am – 12.30 pm	Meeting with Northpower Fibre Limited
2.25 pm	Depart Auckland for Wellington
3.25 pm	Arrive in Wellington
4.30 pm – 5.30 pm	Meeting with Hon David Cunliffe, Opposition Spokesperson for Economic Development

- 5.40 pm – 6.30 pm Telecommunications Forum Function hosted by Hon Amy Adams MP, Minister for Communications and Information Technology
- 7.00 pm Official Dinner hosted by the Speaker, Dr the Rt Hon Lockwood Smith

Wednesday, 26 September

- 9.45 am – 12noon Site inspection of the Wellington Central Exchange and the Churchton Park telecommunications and network infrastructure
- 12.30 pm – 1.50 pm Meeting with Hon Amy Adams MP, Minister for Communication and Information Technology
- 1.40 pm – 2.45 pm Observe Question Time
- 3.00 pm – 4.00 pm Meeting with the Commerce Commission
- 4.15 pm – 5.00 pm Meeting with Ministry of Education
- 6.15 pm – 7.30 pm Drinks with New Zealand Parliamentary Friendship Group hosted by Ms Denise Roche MP, Chair, Australia-New Zealand Friendship Group Committee

Thursday, 27 September

- 9.15 am – 10.30 am Meeting with Dr the Rt Hon Lockwood Smith, Speaker, House of Representatives, New Zealand
- 10.30 am- 11.30 am Private Meetings
- 11.30 am – 12noon Meeting with Hon Craig Foss MP, Minister for Commerce and Broadcasting
- 12.15 pm – 2.15 pm Meeting with the Chair and Members of the Commerce Select Committee
- 2.30 pm – 3.30 pm Meeting with Chorus New Zealand

3.45 pm – 4.45 pm	Meeting with the Ministry for Business Innovation and Employment, National Infrastructure Unite, the Treasury, Ministry of Foreign Affairs and Trade
4.45 pm	Return to hotel ^{TNPLH}
7.00 pm – 10.30 pm	Official Dinner hosted by His Excellency Mr Michael Potts, High Commissioner for Australia



Appendix A – Submissions and Exhibits

Submissions

- 1 Communications Electrical and Plumbing Union Communications Division
- 2 Change Agent nb Pty Ltd
- 3 Regional Development Australia Far West New South Wales
- 4 Hon Wendy Duncan MLC, Parliament of Western Australia
- 5 Mr Greg Ingram
- 6 Mr Kevin Morgan
- 7 NBN Co Limited (additional information to answers taken on notice on 16 April 2012)
- 7.1 NBN Co Limited (additional information to answers taken on notice on 16 April 2012)
- 7.2 NBN Co Limited (answers to questions taken on notice on 18 and 19 October 2012)
- 7.3 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.4 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.5 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.6 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.7 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.8 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.9 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.10 NBN Co Limited (answers to questions taken on notice on 30 October 2012)

- 7.11 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.12 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 7.13 NBN Co Limited (answers to questions taken on notice on 30 October 2012)
- 8 Tunstall Health Care
- 9 Australian Competition and Consumer Commission
- 10 Personal Emergency Response Services Association
- 11 Professor Jan Thomas
- 11.1 Professor Jan Thomas
- 12 Telstra Corporation
- 12.1 Telstra Corporation
- 13 Shareholder Ministers (The Minister for Broadband, Communications and the Digital Economy and the Minister for Finance and Deregulation)
- 14 Department of Broadband, Communications and the Digital Economy

Exhibits

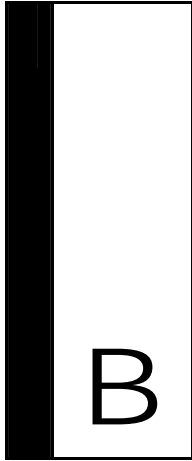
- 1 Communications Electrical and Plumbing Union Communications Division
Correspondence:
Letter from Mr Dan Dwyer, Divisional Secretary, Communications Electrical and Plumbing Union to Ms Paula Heath, Manager, Workplace Relations, Telstra Corporation, dated 28 November 2011
Letter via email from Mr Julian Clarke, Director, Workplace Relations and Policy to Mr Dan Dwyer, Divisional Secretary, Communications Electrical and Plumbing Union dated 13 December 2011
Letter from Mr Dan Dwyer, Divisional Secretary, Communications Electrical and Plumbing Union to Ms Paula Heath, Manager, Workplace Relations, Telstra Corporation, dated 20 April 2012
Letter via email from Mr Julian Clarke, Director, Workplace Relations and Policy to Mr Dan Dwyer, Divisional Secretary, Communications Electrical and Plumbing Union dated 27 April 2012
- 2 Tunstall Healthcare
Package of Information:

Brochure titled *Stay Independent and safe with Tunstall LifeCare*, Telecare DVD, Fact Sheet titled: *Case Study – Virginie’s Story*, Fact Sheet titled: *Jack’s Story*, Fact Sheet titled: *About your monitoring service*, Fact Sheet titled: *Falls Management – Life Changing, Life Saving*

3 NBN Co Limited

Documents titled:

FTTP Brownfields – Activity Profile, FTTP Brownfields LNDN Capital Expenditure, Fixed Wireless Capital Expenditure Per Site, Long Term Satellite Service Capital Costs, New Developments – Activity Profile



Appendix B – Hearings and Witnesses

Tuesday, 26 June 2012 - Canberra

Communications Electrical and Plumbing Union, Communications Division

Mr Dan Dwyer, National Secretary

Ms Ros Eason, Senior National Industrial Officer

Department of Broadband, Communications and the Digital Economy

Mr Peter Harris, Secretary

Mr Daryl Quinlivan, Deputy Secretary

Mr Ian Robinson, First Assistant Secretary

Ms Joanna Grainger, Assistant Secretary

Tuesday, 14 August 2012 – Canberra

Australian Competition and Consumer Commission

Mr Rod Sims, Chairman

Mr Ed Willett, Commissioner

Ms Rose Webb, Executive General Manager, Mergers and Adjudication

Mr Michael Cosgrave, Group Manager, Communications

Tuesday, 9 October 2012 – Canberra

Tunstall Healthcare

Mr Gary Morgan, Health Services Director

Mr Geoff Feakes, Chief Information Officer

Ms Lisa Capamagian, Marketing and Strategy Implementation Manager

Individual

Professor Jan Thomas

Tuesday, 30 October 2012 – Canberra

NBN Co Limited

Mr Mike Quigley, Chief Executive Officer

Mr Robin Payne, Chief Financial Officer

Mr Ralph Steffens, Chief Operating Officer

Department of Broadband, Communications and the Digital Economy

Mr Ian Robinson, Acting Deputy Secretary

Department of Finance and Deregulation

Ms Stacie Hall, A/g First Assistant Secretary, Government Business, Special Claims and Land Policy

Mr Philip Smith, Assistant Secretary, NBN Policy and Shareholder Branch

Telstra Corporation

Mr James Shaw, Director, Government Relations

Mr Julian Clarke, Director, Workplace Relations and Policy

Ms Yolanda Chorazyczewski, Group Regulatory Manager