

Senate Standing Committee on Environment and Communications

Answers to Senate Estimates Questions on Notice

Additional Estimates Hearings February 2014

Communications Portfolio

Department of Communications

Question No: 66

Program No. 1.1

Hansard Ref: In Writing

Topic: Independent cost-benefit analysis and review of regulation

Senator Urquhart asked:

A “Panel of Experts” has been appointed to conduct the *Independent cost-benefit analysis and review of regulation*

- a. What is the specific expertise of Dr Michael Vertigan in conducting an independent cost-benefit analysis? Can details of cost-benefit analyses he has prepared be provided?
- b. What is the specific expertise of Dr Michael Vertigan on the regulatory arrangements for telecommunications?
- c. What is the specific expertise of Alison Deans in conducting an independent cost-benefit analysis? Can details of cost-benefit analyses she has prepared be provided?
- d. What is the specific expertise of Alison Deans on the regulatory arrangements for telecommunications?
- e. Given his previous roles Tony Shaw has clearly extensive experience in telecommunications regulation. What is the specific expertise of Mr Shaw in conducting an independent cost-benefit analysis? Can details of cost-benefit analyses he has prepared be provided?
- f. Mr Ergas has been very vocal as an advocate in telecommunications regulatory policy over many years. Apart from his purported Cost-benefit analysis of the NBN in 2010, what is the specific expertise of Henry Ergas in conducting an independent cost-benefit analysis? Can details of cost-benefit analyses he has prepared be provided?
- g. In a decision of the Australian Competition Tribunal in 2004 (Qantas Airways Ltd [2004] ACompT 9) the judge observed that Mr Ergas displayed an :
“attitude and conduct that led to a conclusion of partiality and an inability to express an objective expert opinion.” Does this comment suggest Mr Ergas is suitable for selection to a Panel of Experts required to undertake an independent analysis?
- h. Mr Ergas together with Alex Robson conducted a Cost-benefit analysis which was both part of a Productivity Commission paper and submitted to the former Senate Select Committee on the NBN. Did the Department seek any advice on the quality of that CBA before Mr Ergas was appointed to the Panel of Experts?
- i. In that CBA the benefits of high speed services are entirely represented by a series of “willingness to pay” assumptions. Is that what the Department is expecting in the assessment of benefits from the Panel of Experts?
- j. In determining the willingness to pay that CBA made the following statement;
“*The question then is whether the valuation of the incremental speed associated with the NBN outweighs the incremental costs. In considering this, it is important to remember that most currently envisaged applications function reasonably efficiently at speeds well below those contemplated either in the NBN world or in the counterfactual. Thus, over time, advances in compression and coding tend to reduce bit rate requirements, to some extent offsetting the tendency for applications to become ever more ‘content rich’.*”

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Is this an accurate assessment of the demand for higher speed services? If so, can the Department explain why over 20% of fibre to the premises customers choose the 100 Megabit per second download product?

- k. The CBA considered the financial projections for twenty years, while NBN Co's Corporate Plan has modelled the project over thirty years. Has the Panel of Experts been given any direction on what time period is to be considered for its analysis?
- l. Mr Ergas has recently made a submission to the Productivity Commission inquiry on Public Infrastructure. In that submission Mr Ergas said:
"There are many technical deficiencies in project evaluation, including sloppy use of 'wider economic benefits' to get questionable projects over the line, and incorrect setting of discount rates."
Has the Department had any discussion with the Panel of Experts on how wider economic benefits will be incorporated in the cost-benefit analysis?
- m. Following on from the comment on discount rates, Mr Ergas submitted:
"the discount rates used do not properly incorporate a mark-up for optimism bias and other distortions in public sector decision-making. The extent of that mark-up should reflect the option value of deferring investment, which in turn depends on the extent to which updated cost and demand information could lead to a reconsideration of the timing and extent of investment."
Has the Department had any discussion with the Panel of Experts on discount rates and whether they should be marked-up for "distortions in public sector decision making" or for the value of delay?
- n. When will the Panel of Experts commence consultation for its cost benefit analysis rather than just the regulatory framework?
- o. When Mr Ergas appeared before the previous Senate Select Committee on 4 June 2010, referring to the Implementation Study, he said *"Given access to that information, it would be a matter of days to complete the cost-benefit appraisal of the project."* Will the Cost-benefit analysis completed by the Panel of Experts take longer than "a matter of days"? If so, why was Mr Ergas wrong in the evidence he gave to that Committee?

Answer:

- a – h. The Panel members were chosen by the Government after considering a range of candidates who have a background in finance, economics, telecommunications, regulation and public policy. The Panel members combined bring decades of relevant experience in telecommunications, regulation and competition policy, economics (including cost-benefit analysis), public policy and digital business to this review.
- i – m. The Panel is developing and refining a comprehensive methodology or analytical framework for its cost-benefit analysis. The Panel plans to release this document when it is complete and it will provide details about techniques and assumptions and how they will be used in the analysis.
- n. Both the cost – benefit analysis and regulatory review influence one another; hence why the Panel is conducting a cost – benefit and regulatory review. As noted in the previous answer, the Panel plans to release its methodology or analytical framework for the cost-benefit analysis when it is complete (at this time, likely in April).
- o. The cost-benefit analysis is scheduled to be finished in June 2014.