

Senate Standing Committee on Environment and Communications
Answers to Senate Estimates Questions on Notice
Additional Estimates Hearings February 2011
Broadband, Communications and the Digital Economy Portfolio
NBN Co Limited

Question No: 194

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Rollout

Senator Birmingham asked:

When will the exact 93% of premises that will receive fibre be settled? When will households and business owners know for certain that their residence/premise will be in the fibre footprint or if they will need to pursue wifi or satellite connections?

Answer:

As mentioned in the Corporate Plan 2011-13 (refer page 63) the precise design of the fibre footprint will only be known when NBN Co completes detailed suburb-by-suburb designs which will happen progressively during the construction period as the company rolls out in each geographic area. At that time more detailed coverage maps will be made available to residents and business owners.

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Question No: 195

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Rollout

Senator Birmingham asked:

When will the rollout of wifi or satellite infrastructure be completed?

Answer:

NBN Co expects to commence commercial launch of its fixed wireless network in the second quarter of 2012 in accordance with its Corporate Plan 2011-13 targets (refer page 15). The company expects to commence its Interim Satellite Solution from 1 July 2011 and to have its own satellites in orbit from 2015.

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NBN Co Limited

Question No: 196

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Destruction of the copper network

Senator Birmingham asked:

In its business case, NBN Co estimates that 70 per cent of all homes will be connected to the NBN by 2025. How many of these connections will utilise speeds at the basic 12 mbps?

Answer:

NBN Co's projections of the utilisation of its 12 Mbps service are set out in its Corporate Plan 2011-2013 at page 118 (Exhibit 9.12 covers Residential Fibre Subscribers) and page 129 (Exhibit 9.24 covers Overall Fibre Subscribers).

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Question No: 197

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Destruction of the copper network

Senator Birmingham asked:

Did NBN Co take the acquisition of Telstra's copper network and the \$13.8 billion cost into account when modelling the internal rate of return stipulated in the business case? If not, why not?

Answer:

NBN Co is not acquiring Telstra's copper network. The Financial Heads of Agreement is outlined at page 51 of the Corporate Plan 2011-2013, Section 3.1.1 *Telstra Definitive Agreements*. The Corporate Plan assumptions include the modelling of the successful completion of the deal with Telstra and this is factored into the Internal Rate of Return.

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NBN Co Limited

Question No: 198

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Destruction of the copper network

Senator Birmingham asked:

What is the profit received by NBN Co for each wholesale connection at \$24 per month?

Answer:

Profit per wholesale connection is forecast to vary over time. Exhibit 10.3 at page 134 of the Corporate Plan 2011-2013 provides the earnings forecast and summary financials for the build period 2011-2020 and the 30 year business case.

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Question No: 199

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Destruction of the copper network

Senator Birmingham asked:

Given that the current price for a wholesale line rental as mandated by the ACCC is \$25.57 per month, will NBN Co be receiving \$1.57 less revenue than currently received by Telstra for a wholesale line rental?

Answer:

No. The ACCC pricing is a different pricing construct for a different type of service and infrastructure and therefore it does not apply to NBN Co.

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NBN Co Limited

Question No: 200

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Destruction of the copper network

Senator Birmingham asked:

As the current wholesale line rental price is \$25.57 per month, doesn't this result in a negative internal rate of return for the total NBN Co project? If not, why not?

Answer:

No. The ACCC pricing is a different pricing construct for a different type of service and infrastructure and therefore it does not apply to NBN Co.

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NBN Co Limited

Question No: 201

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Destruction of the copper network

Senator Birmingham asked:

Wholesale fixed internet services declined by 8.6 per cent on Telstra's copper network in the first half of financial year 10-11. Is it not the case that NBN Co's wholesale services will need to be more expensive than Telstra's in order to provide a positive return?

Answer:

No. Total fixed broadband services continue to grow in Australia. The NBN Co Corporate Plan 2011-2013 (Sections 8 to 10) provides the company's pricing, revenue and overall financial forecasts covering wholesale services and growth forecasts.

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Question No: 202

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

In its initial submission to the ACCC on the number of Points of Interconnect to the NBN, NBN Co recommended 14 points of interconnect, all located in the capital cities. Can NBN Co explain the reasons why 14 points was an appropriate number?

Answer:

The ACCC's discussion paper on its public website includes NBN Co's Public Position Paper including its rationale for the 14 points of interconnect.

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Question No: 203

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

NBN Co compromised and agreed upon 120 points of interconnect after their initial proposal of 14 was criticised by the ACCC as being anti-competitive. Can NBN Co explain why it accepted the ACCC's advice?

Answer:

The final decision on the location and number of Points of Interconnect (POI) followed a lengthy public consultation process involving the company and the ACCC, which is the ultimate regulator of competition in the telecommunications market.

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Question No: 204

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

In NBN Co's business plan summary released in November, NBN Co state that if the Government mandates to implement a higher number of POI locations than 14, the rate of return on the NBN project could drop by as much as 80 basis points. How many basis points has the rate of return of the NBN dropped after accepting the ACCC's advice for 120 POI locations?

Answer:

In the 24 November 2010 NBN Co Business Case Summary, it was mentioned that:

"... If the Government elects to mandate a larger number of PoIs than NBN Co plans, it will need to take other steps to achieve low and uniform national wholesale pricing. If that solution does not promote the same intensity of retail competition as the 14-PoI offering, NBN Co projects that its IRR could decline by 50-80 basis points because of slower take-up of broadband and slower introduction of retail services that require higher speeds. ..."

NBN Co proceeded with a semi-distributed PoI model in the Plan that was submitted in December 2010 *"...on the assumption that the ACCC will make access determinations for currently regulated transmission routes (with effect from 1 January 2011) and that the ACCC will also monitor pricing on currently exempted routes and, if necessary, will act promptly to re-examine exemptions in the event that pricing on those routes is not aligned with the ACCC's access determinations for regulated routes. ..."*¹

This major assumption, i.e. an ACCC oversight that would achieve affordable backhaul capacity in Australia in order to achieve high penetration rates and high usage growth, including in regional Australia (and despite operating in a non-centralised environment), meant that the IRR decline risk mentioned in the November Summary could be mitigated in the Corporate Plan submitted in December 2010.

¹ Extract from NBN Co Corporate Plan, December 2010, Section 1.3.2, *Points of Interconnect (PoIs)*.

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Question No: 205

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

Has the drop in basis points for the rate of return been included in the financial modelling within the business case released by NBN Co in December?

Answer:

The rate of return in the business case incorporated NBN Co's assessment of the semi-distributed Points of Interconnection model.

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Question No: 206

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

NBN stated in their initial submission to the ACCC on the POI issue that a low consolidation plan of POI locations, such as the 120-location solution eventually accepted by NBN Co will not result in “end-to-end uniform national wholesale pricing because costs remain significant in regional areas.” Can NBN Co explain how its decision to accept 120 locations will not prevent a uniform national wholesale price?

Answer:

The ACCC’s discussion paper *National Broadband Network Points of Interconnect*, outlined a range of ways in which backhaul prices in regional areas could be reduced to facilitate a uniform cost structure to retailers across regions – refer Section 6 – Uniform national wholesale pricing and POI location.

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Question No: 207

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

NBN Co has released a list of where it intends the POIs to be located. How many currently operating points of interconnect in regional areas are not included on the list of 120 sites, and can NBN Co list each location for the Committee?

Answer:

There are currently no regional operating POIs. NBN Co is operating through temporary POIs located in central metropolitan areas. Regional POIs will be progressively built as the rollout progresses in regional areas and the commercial negotiations with Telstra are finalised.

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Question No: 208

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

Part of the problem with implementing just 14 POI sites was that existing backhaul links would have become stranded, resulting in compensation claims from telecommunication companies. How much backhaul will become obsolete under NBN Co's new plan for 120 POI locations?

Answer:

NBN Co does not possess details of all backhaul that is in existence in Australia, only the ACCC has access to this information via their mandatory reporting requirements.

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Question No: 209

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

Is NBN Co expecting compensation claims as a result of its decision to choose 120 POI locations?

Answer:

NBN Co is not expecting to receive compensation claims.

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Question No: 210

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

NBN Co will reportedly prevent Telstra from utilising its HFC Cable Network to provide wholesale broadband services, and will also prevent Optus from doing the same. What download speeds can be achieved through the HFC network?

Answer:

NBN Co does not intend to deploy HFC as part of the NBN. Therefore download speeds on HFC are a matter for the operators of those networks.

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Question No: 211

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

What are the reasons for preventing Telstra and Optus from utilising their HFC networks to provide wholesale broadband access?

Answer:

We are not “preventing” the use of Telstra and Optus HFC networks for broadband use. It may, however, be the case that at some stage operators of HFC choose, on commercial grounds, an arrangement which sees their broadband traffic carried by the NBN which is wholesale only and open access.

It should be noted that access to HFC infrastructure is not available at a wholesale level, nor is this infrastructure available for resale from either Optus or Telstra, leaving Telstra’s copper network infrastructure as a Retail Service Provider’s only means of wholesale delivery at scale.

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Question No: 212

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

Is there a figure within the \$13.8 billion deal with Telstra that relates to the prevention of Telstra from utilising its HFC networks for broadband?

Answer:

The details of the commercial negotiations with Telstra are confidential between the parties and for legal reasons cannot be disclosed.

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Question No: 213

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

How will NBN Co prevent Optus from using its HFC network for broadband access – does it plan to do this through agreement, or through a legislative instrument?

Answer:

The details of the commercial negotiations with Optus are confidential between the parties and for legal reasons cannot be disclosed.

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Question No: 214

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

What does NBN Co believe the current worth of Optus's HFC network is currently? Is NBN Co expecting a compensation claim from Optus if it is prevented from using its network through legislation or other means?

Answer:

The details of the commercial negotiations with Optus are confidential between the parties and for legal reasons cannot be disclosed.

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Question No: 215

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Points of Interconnect, HFC and compensation claims

Senator Birmingham asked:

Has NBN Co included the costs of providing Optus with compensation for its HFC cable into its financial modelling within the business case and its projected rate of return?

Answer:

The current NBN Co Corporate Plan 2011-2013 business case modelling does not include financial projections related to a commercial arrangement with Optus.

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Question No: 216

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Backhaul links and usage costs

Senator Birmingham asked:

Can NBN Co confirm that ISPs connected to the NBN will not pay any additional amounts for transit backhaul usage?

Answer:

ISPs connected to the NBN may well have to pay for transit backhaul usage depending upon their Point of Presence and the need to carry traffic from that point/s to NBN Co's Point of Interconnect (POI). NBN Co's pricing is from the POI to the premise.

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Question No: 217

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Backhaul links and usage costs

Senator Birmingham asked:

The McKinsey implementation study recommended that transit backhaul usage be priced separately for access usage. Can NBN Co explain why it chose to include backhaul usage within the access price?

Answer:

NBN Co has not included backhaul usage in its product pricing. NBN Co's Pricing Model is explained in more detail in its Corporate Plan 2011-2013, pages 100-107.

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Question No: 218

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Backhaul links and usage costs

Senator Birmingham asked:

What are the costs involved in providing open transit backhaul access on a network such as the NBN?

Answer:

NBN Co does not charge for nor does it provide transit backhaul on its network.

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Question No: 219

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Backhaul links and usage costs

Senator Birmingham asked:

Given that transit backhaul costs are included in the wholesale price, and the wholesale price will be uniform across Australia, is it accurate to state that ISPs based in the cities are subsidising the backhaul costs of regional based ISPs accessing that backhaul?

Answer:

Refer to answer to Question 218.

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NBN Co Limited

Question No: 220

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Backhaul links and usage costs

Senator Birmingham asked:

Would wholesale prices be cheaper if transit backhaul costs weren't included in the total wholesale price?

Answer:

Refer answer to Question 218.

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Question No: 221

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Wireless technologies

Senator Birmingham asked:

NBN Co has said that communities receiving wireless will receive the “latest technologies’ in wireless service. Why then has NBN Co refused to look at long term evolution technology as a solution to wireless access?

Answer:

NBN Co has not refused to look at the LTE technology as a solution and its commercial arrangements with the successful wireless provider/s will allow for the use of LTE technology if it is proven to be a better long term solution for the network. In line with the Government’s Statement of Expectations letter to the company in December 2010, NBN Co will upgrade services over time and demonstrate that the functionality and performance of its services is meeting demand and supporting commercially proven innovation across all technology platforms.

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Question No: 222

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Wireless technologies

Senator Birmingham asked:

How will an increase in wireless-only households impact upon the rate of return for the NBN?

Answer:

NBN Co's assumptions on Wireless-Only Homes are explained in the Corporate Plan 2011-2013 at pages 109 and 116-117.

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Question No: 223

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Wireless technologies

Senator Birmingham asked:

The Government released the review of NBN Co's business case by Greenhill Caliburn on 14 February. The report states that the viability of the NBN is at a risk from increased penetration of wireless and mobile technology. Does the NBN Co share the view of Greenhill Caliburn?

Answer:

NBN Co considers its assumptions about the penetration of wireless and mobile technology within its business case and Corporate Plan are robust and based upon international benchmarks and conclusions drawn from detailed market analysis. The basis of these assumptions are explained in the company's Corporate Plan 2011-2013, pages 116-117.

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Question No: 224

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

The new requirements for NBN Co to install fibre in new housing estate developments started on 1 January 2011. Has NBN Co installed fibre in any developments so far this year?

Answer:

NBN Co's obligation is to fibre developments approved (not "started") after 1 January 2011 and providing at least three months notice of the need for fibre infrastructure. Fibre deployment in greenfields developments is geared to developer's timeframes. The first installations of fibre will commence shortly.

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Question No: 225

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

How many new developments and houses has NBN Co modelled that will request fibre installation during 2011?

Answer:

NBN Co's deployment targets for new developments are set out on page 15 of its Corporate Plan 2011-2013.

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Question No: 226

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

Who actually installs the fibre through the new development? The developer appears charged with its installation – does this mean that the developer can hire anyone to install the fibre?

Answer:

Under the Government's policy, developers can choose who they like to install telecommunications infrastructure in their developments. If a developer chooses NBN Co, NBN Co is responsible for the fibre installation in new developments not developers.

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Question No: 227

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

NBN Co's website states that NBN Co will cover the cost of fibre infrastructure provided that developers install pit and pipe infrastructure to NBN Co's specifications. What will the case be where a developer has not installed pit and pipe infrastructure to these specifications? Will NBN Co request that the infrastructure is overbuilt?

Answer:

The developer will be contacted to discuss why the specifications were not followed and arrangements made for any necessary rectification work.

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Question No: 228

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

What is the average number of premises included within new housing estates?

Answer:

The average lot size is about 100 premises.

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Question No: 229

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

NBN Co will not provide fibre to developments of less than 100 premises. Is it correct that most of these premises will be connected by Telstra to its copper network?

Answer:

This is a matter for Telstra to determine – NBN Co cannot speculate on how Telstra will connect premises in these developments.

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Question No: 230

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

For those new houses that are connected to Telstra's network, will NBN Co upgrade those houses to fibre as it continues its rollout?

Answer:

All new developments under 100 premises which are connected to Telstra's copper network will receive fibre when NBN Co's rollout reaches that area, provided the area is within NBN Co's long term fibre footprint.

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Question No: 231

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

Is it true that NBN Co simply does not have the current resources to install fibre on small housing estates?

Answer:

No.

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Question No: 232

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

Will developers of estates with less than 100 homes still be required to install pits and ducts to NBN Co's specifications for the purpose of future fibre installation? How will NBN Co encourage developers to meet these specifications?

Answer:

The specifications for pits and ducts in estates with less than 100 premises will be a matter for Telstra's determination but the expectation is that these will be consistent with NBN Co's requirements. Wherever possible, NBN Co will encourage all developers to meet its specifications and will do this through cooperative engagement.

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Question No: 233

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

Given that the Government will decommission the copper network as the NBN is rolled out, how can it be cost-effective to connect homes to copper and then replace it with fibre at a later date?

Answer:

Until the NBN has reached a particular area, it is more cost effective to install copper and then replace it because a fibre transit system will not be available in most cases to connect to.

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Question No: 234

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: New Housing Estates including sub-contractors

Senator Birmingham asked:

Is it not easier and less costly to install fibre on a new development rather than install it on existing premises and over the copper network?

Answer:

This assumption is certainly correct for large developments in new growth areas.