

Mr Michael Quigley
Chief Executive Officer, NBN Co. Ltd.



CC Senator Stephen Conroy
Minister for Broadband, Communications & the Digital Economy

Senator Penny Wong
Minister for Finance & Deregulation

Peter Harris
Secretary, Department of Broadband, Communications & the Digital Economy

Harrison Young
Chairman, NBN Co. Ltd.

Senator Doug Cameron
Chairman, Senate Environment & Communications Legislation Committee

14 May 2012

Dear Mr Quigley

We write to you in anticipation of the upcoming 2012-13 Senate Budget Estimates hearings. As you know the Environment & Communications Committee will examine the proposed annual expenditure of the Department of Broadband, Communications & the Digital Economy (DBCDE) and its statutory authorities and agencies on 23 May and 24 May.

According to the 2012-13 Budget forward estimates, the National Broadband Network (NBN) will consume \$20.1 billion (or almost 80 per cent) of all the financial resources projected to be spent across the DCBDE portfolio from 2012-13 to 2015-16. Expenditure on the NBN and the ongoing financial and operational progress of NBN Co will again be critical issues at these hearings.

Unfortunately, scrutiny of the NBN at previous hearings has frequently been constrained by the large number of questions (particularly non-Government questions) taken on notice, and the limited time available. It is our belief that this largely reflects three factors:

- Your decisions to appear alone in answering the committee's questions about NBN Co. While we are grateful for your time and value your evidence, NBN Co's rapid growth and increasing operational complexity, combined with the vast scale of the NBN make it impractical for even you to be across all issues to the degree required to satisfactorily respond to all inquiries.
- Your use of substantial time for an opening statement that in considerable part duplicates information already provided to Parliament. The establishment over the past year of

regular reports on the rollout from Shareholder Ministers to the Parliament's Joint Committee on the National Broadband Network exacerbates this problem.

- An apparent lack of preparation and/or knowledge on the part of some departmental officials on matters related to the NBN. It is not reasonable to expect officials to be able to provide detailed responses to every inquiry during an Estimates hearing. But the high proportion of NBN-related questions from non-Government senators unanswered or taken on notice is neither conducive to the Committee effectively fulfilling its duty of oversight nor consistent with Senator Faulkner's well-known claim that Senate Estimates are the "best accountability mechanism of any Australian parliament."

The purpose of this letter is to propose remedies for each of these constraining factors.

First, we request that you ensure NBN Co represents itself in a fashion that allows at least 50 per cent of questions from non-Government senators about its operations to be answered immediately, rather than taken on notice. At the very least, we ask that you be accompanied by relevant senior executives such as the Head of Corporate, Chief Communications Officer, Head of Product Development and Industrial Relations, Chief Financial Officer or Chief Operating Officer.

Second, we request that you, as far as practicable, limit the detail of your opening statement to financial or operational developments subsequent (or information additional) to the most recent report from Shareholder Ministers to the Joint Committee on the National Broadband Network, which was provided on 9 April.

Third, in order to avert situations where apparently straightforward inquiries inexplicably cannot be answered by either NBN Co or the Department, the principal lines of questioning about the NBN that the Coalition intends to pursue at these Estimates hearings are described in Appendix A. We ask that you bring this letter to the attention of other DBCDE and NBN Co officials as soon as possible, to ensure officials from both organisations come fully prepared for these questions.

You will observe that a majority of these questions seek updated NBN Co projections for network rollout, customers, revenues, expenses and cumulative losses at several points in time over the next two years.

Information of this type is normally included in the three-year corporate plans that the CAC Act, CAC Act Regulations and Corporations Act require Government Business Enterprises to prepare and lodge with Shareholder Ministers by 31 July to each year. The only data of this sort that NBN Co has so far made public is in the NBN Co 2011-2013 Corporate Plan released in December 2010 (and presumably in large part prepared in or prior to July 2010).

You have publicly stated that the 2010 plan is no longer an accurate representation of NBN Co's strategy or expectations. But since the Government has not made any subsequent forecasts public, the Parliament and the Australian public have no current way to assess the largest single public investment in our history. It is our hope that answers to these questions will fill this vacuum.

Several lines of questioning relate to NBN Co's operational and financial performance and contractual obligations at the end of 2013. As you are aware, this is shortly after the period when the next Federal election is widely expected to take place. In the event the Coalition wins that election, these will be the circumstances in which the new government assumes responsibility for the NBN and broadband policy.

This information is therefore a critical input for development of the Coalition broadband and policy to be offered at the next election. I'm sure you will agree that it is almost impossible to accurately model or cost this policy without up-to-date answers from the only authoritative source of information about these matters for questions such as: 'How many Australians households will be able to connect to NBN fibre at the end of 2013?' Or: 'what will be the nature and total value of NBN Co's outstanding contractual obligations to suppliers at the end of 2013?'

In this regard we draw your attention to Senator Conroy's recent demand that the Coalition release a detailed description and costing of its 2013 broadband policy immediately; the text of his media release of 3 May on this matter is reproduced in Appendix B.

Given the sense of urgency evident in Senator Conroy's request, can you please confirm that complete and up-to-date answers reflecting NBN Co's most recent analysis will be provided at the forthcoming Estimates hearings to any question about NBN Co construction, customer or financial milestones that are pertinent to the Coalition's detailed development of its 2013 broadband policy?

Yours sincerely

Senator Birmingham

Senator Fisher

APPENDIX A: EXPECTED COALITION LINES OF QUESTIONING ON NBN

1. Metrics & Rollout

Please provide management's central-case forecast of the NBN's progress (or most recent twelve month trailing outcome) against each of the following metrics. Please provide forecasts for the end of each of: FY 2011-12, FY 2012-13, FY 2013-14, Calendar 2013

- Premises covered/premises with active service (satellite and fixed wireless)
- Brownfield premises passed/premises with active service (fibre)
- Greenfield premises passed/premises with active service (fibre)
- Percentage of premises passed/covered which are households
- Percentage of premises passed/covered which are commercial
- NBN Co total customers with active service
- NBN Co revenue (previous twelve months)
- NBN Co operating expenses (previous twelve months)
- NBN Co capital expenditure (previous twelve months)
- NBN Co cumulative equity investment and cumulative cash burn
- Cumulative capex on: fibre rollout; satellite network; fixed wireless; shared capex
- Annualized cost of maintenance and replacement capex per passed premise
- ARPU per household with active service
- ARPU per commercial premise with active service
- Takeup of services by speed of service

What proportion of Australian premises does NBN Co estimate currently have:

- No access to broadband because of network architecture constraints?
- No access to broadband because of exchange capacity or other commercial constraints?
- Access to broadband with a peak speed of 5 Mbps or less
- Access to broadband with a peak speed between 5 and 10 Mbps?
- Access to broadband with a peak speed between 10 and 20 Mbps?
- Access to broadband with a peak speed of 20 Mbps or more?

What proportion of each of these categories of Australian premises does NBN Co estimate its network rollout (broken down by satellite, fixed wireless and fibre) will have covered or passed at each of the above dates?

2. Risk Management

What assessment of technological and commercial risks associated with the satellite deal with Loral has been conducted by DBCDE? By the NBN Co Board ? By NBN Co management?

What assessment of risks related to the ACCC's decision on NBN Co's SAU has been conducted by DBCDE? By the NBN Co Board ? By NBN Co management?

What work has NBN Co Board commissioned or sought on change-of-government risks?

3. Liabilities & Prospective Outlays in 2013

What is management's best estimate of the aggregate value of NBN Co contractual liabilities to suppliers and other parties outstanding at the end of calendar 2013, and what will be the principal categories of liability and proportion of total liabilities associated with each of these?

What are the five largest outstanding contracts projected to be?

What is management's best estimate of the number of fibre to the premise connections that will be passed after the end of calendar 2013 if all contracts existing at that time are fulfilled? When will the total be achieved?

What sum and proportion of the satellite network total cost will be spent by the end of 2013?

What sum and proportion of the fixed wireless network total cost will be spent by the end of 2013?

4. SAU

In what circumstances can the price control on the entry product be waived?

What is NBN Co's forecast of movements in ARPU for broadband and voice over FTTP and FTTN networks in the US market over the next ten years? What is the basis for this forecast?

What is NBN Co's forecast of movements in ARPU for broadband and voice over FTTP and FTTN networks in the UK and the rest of the EU over the next ten years? What is the basis for this forecast?

APPENDIX B - SENATOR CONROY'S 3 MAY PRESS RELEASE

(Available at: http://www.minister.dbcde.gov.au/media/media_releases/2012/057)

Turnbull has new questions to answer

Minister for Broadband, Communications and the Digital Economy, Senator Stephen Conroy, today repeated his call for the Coalition to come clean on their broadband plans.

"In the first four months of 2012 Mr Turnbull has made 583 tweets, issued 18 press releases and delivered 6 public speeches. Yet he has still not produced a policy document nor costed his proposals.

"Malcolm Turnbull gave a speech in August last year in which he sketched a proposal using a technology mix. He repeated much of that in a speech in April, and pins his hopes on an FTTN proposal delivering speeds "up to" 80 Mbps."

"He has continued his negative campaign and not provided an actual broadband policy." Senator Conroy has issued press releases each month including a set of questions about coalition policy that Mr Turnbull has not answered.

"Instead of delivering policy, Mr Turnbull has relied on quoting myself and Telstra CEO David Thodey out of context in attempts to claim support for his position."

"He has not responded to reporting in Australia of the comments by former BT CTO Peter Cochrane that 'Fibre to the cabinet is one of the biggest mistakes humanity has made.'"

"Mr Turnbull continues to talk about FTTN co-existing with HFC. He does not identify where he intends that FTTN will be built. He has claimed that this should be a private enterprise project without commenting on what the increased funding cost will be."

"The Coalition needs to come clean – what is their actual policy, what technology do they propose to use, and what will it cost."

...

Questions Mr Turnbull still won't answer

COSTS

- How much will his network cost?
- How will he achieve the structural separation of Telstra?
- Who supports his contention that Telstra will not require additional payment for nationalising the copper?
- How does he cost a network with a capital cost of \$35B at \$50B?

TECHNOLOGY

- How many FTTN nodes does he plan to build?
- What percentage of households will be served by which technology – FTTN, HFC, wireless?
- What does he really think the future requirements for bandwidth are in Australia?
- When does he expect his network will need to be replaced by FTTH (he calls it a migration path)?
- What satellites does he plan to use to deliver broadband beyond the reach of wireless?

POLICY

- How will he ensure comprehensive broadband availability through his hit and miss approach?
- Does he support his leader's belief that everyone is happy with wireless?
- Does he support the National Party view that fibre to the home is the right solution?
- Does he support their target of 50% fibre to the home for regional Australia?
- What he will actually do for the year it will take the Productivity Commission to subject his plan to a Cost Benefit Analysis?
- How much will his 'voucher' system for regional Australia cost? How much dearer are 'comparable' regional prices to metropolitan prices?
- When will his plan be submitted to shadow cabinet for funding approval?