

Senate Standing Committee on Environment, Communications and the Arts
Answers to Senate Estimates Questions on Notice
Budget Estimates Hearings May 2010
Broadband, Communications and the Digital Economy Portfolio
NBN Co Limited

Question No: 115

Hansard Ref: ECA 10

Topic: – Questions on Notice from the February Additional Estimates

Senator Macdonald asked:

How many NBN Co. questions were reviewed and advise when your final answer to those questions were actually sent to the department?

Answer:

The final version of NBN Co's responses to questions (21 in total) was provided to the Department of Broadband, Communications and the Digital Economy (DBCDE) on Thursday 11 March 2010 for review. DBCDE requested that NBN Co revise and resubmit responses to a number of questions.

NBN Co submitted its revised responses to DBCDE on 18 and 26 March 2010.

NBN Co's final answers to Questions on Notice from the February Additional Estimates were submitted to the Committee by 21 May 2010.

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Question No: 116

Hansard Ref: ECA12

Topic: NBN Co Budget

Senator Cormann asked:

Mr Quigley, you have answered Senator Fisher by saying that next week you expect to have received from the government \$312 million in equity injections. How much of that money have you spent to date and how much have you committed to moving forward?

How much is committed over the next 12 months?

Answer:

As at 30 June 2010, NBN Co Group had received equity injections from the Government totalling \$312 million (\$10 million in 2008-09 and \$302 million in 2009-10).

Between incorporation on 9 April 2009 and 30 June 2010, consolidated expenditure by NBN Co was 125 million.

Total remaining contractual commitments as at 30 June 2010 were 175 million of which \$37.9 million is committed over the next 12 months.

On 21 July 2010, NBN Co received a further equity injection of \$350 million.

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Question No: 117

Hansard Ref: ECA 12 and 13

Topic: NBN Co Budget

Senators Cormann and Fisher asked:

You have spent \$50 million so far roughly. Can you break that up for us?

Answer:

For the period 1 July 2009 to 30 April 2010, the company had consolidated operating expenses of \$54.6 million broken up as follows:

- Staff related expenses (employees and contractors) \$26.5 million;
- Facilities and Office expenses \$1.8 million;
- IT and telecommunications expenses \$3.0 million;
- External Consultants \$11.4 million;
- Legal and insurance services \$11.9 million;

In addition at 30 April the company had capitalised project costs and fixed assets of \$25 million.

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Question No: 118

Hansard Ref: ECA13

Topic: NBN Co Budget

Senator Fisher asked:

Will you inform the committee of the amount of the \$50 million equity spent thus far, how much was spent on rolling out the NBN in Tasmania?

Answer:

As at 31 May 2010, \$21.5 million has been incurred in rolling out the NBN in Tasmania. This consists of \$19.3 million in capitalised project costs, \$1.5m in prepayments and \$0.7 million in operating expenses.

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Question No: 119

Hansard Ref: ECA15

Topic: Discontinuation of equity injection into NBN

Senator Cormann asked:

Is there provision as to what any penalty payments to staff or other contractors would be?

Answer:

If staff were given notice of termination under their existing contracts, the company's liability for early termination payments is approximately \$17.0 million. This will be provided for in NBN Co's 2009-2010 financial statements.

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Question No: 120

Hansard Ref: ECA36

Topic: Training Facilities

Senator Ludlam asked:

When do you expect to have the modelling finished?

Answer:

NBN Co expects to have some preliminary data collection and modelling available by end July 2010 but this data will then need careful interrogation and scenario testing before we can accept it as fit for purpose. This may take a further several months to complete.

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Question No: 121

Hansard Ref: ECA37

Topic: Carbon footprints power issue for wireless vs fibre networks

Senator Ludlam asked:

Would you provide the committee with your favourite one or two referenced works, on notice?

Answer:

A useful reference work is *FTTH-The Green Access Technology* by Robert Ayre, Jayant Baliga and Rod Tucker from the ARC Special Research Centre for Ultra-Broadband Information Networks at the University of Melbourne. The paper compares wireless (ie. WiMAX) v. Fibre (FTTN, HFC, Pt/Pt, GPON) power consumption (and hence carbon footprint if non-renewable energy sources are used). It was presented at the 2009 FTTH Council conference in Melbourne about twelve months ago.

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Question No: 122

Hansard Ref: ECA40

Topic: Prices for retailers

Senator MacDonald asked:

What is NBN charging; can you share with us what the prices are?

Answer:

The overall national pricing structure is yet to be finalised and is part of our Special Access Undertaking (SAU) to the Australian Competition and Consumer Commission (ACCC).

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Question No: 123

Hansard Ref: ECA42 and 43

Topic: NBN Tasmania

Senator Macdonald asked:

- a) What is your capital cost for what you have done in Tasmania to date—and, should I say, from now and projected for the next financial year?
- b) What have you spent so far in capital costs?
- c) Do you have an estimate for the next 12 months of your operating costs, your current expenditure?
- d) What revenue are you anticipating from Tasmania?
- e) How many connections are you anticipating? How many do you expect to have by 1 July this year, in another few weeks time?

Answer:

- a) Total capital costs to the end of August for NBN Tasmania project totals \$24.2 million, compared to the initial Stage 1 cost estimate of \$37. This includes all construction and engineering costs, contract management and associated cost for the rollout of the FTTP to the end of August in the three communities and also for the construction of additional backhaul links from Smithton to Port Latta, Georgetown to Scottsdale and parts of the backhaul from Scottsdale to St. Helens and from Triabunna to Midway Point. These links are part of the underlying infrastructure to serve a large number of communities in the future in the northwest, northeast and southeast parts of the state. It also includes some supply of active equipment and the Network Operations Centre supplied by Opticomm. Capital cost for the next 12 months will be part of the NBN Corporate Plan that is yet to finalised and submitted to shareholder Ministers for approval
- b) Same as (a) above.
- c) Operating costs for the next 12 months will be part of the NBN Corporate Plan that is yet to be finalised and submitted to shareholder Ministers for approval.

Revenues will be small initially reflecting the start-up phase of the project and the trial status of the the Tasmanian rollout to gather information that will facilitate future service operations and interworking with RSPs.

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- d) In terms of connections to premises, we received consent to drop a fibre cable to 51% of the homes passed in the Stage 1 communities. Those premises that did not consent will be connected after they place a commercial service order with a Retail Service provider (RSP). By 1 July we had connected our first services, and by the time of the official launch on 12 August we had connected 70 “pioneer” customers who assisted with the pre-launch testing of services. The RSPs are responsible for marketing services to end-users and we are progressively filling several hundred service orders we have received to date. The appropriate period of time to review the take up result is over a span of three years. This allows for many current users who may be on existing contracts to take advantage of new offers in the market.

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Question No: 124

Hansard Ref: ECA44

Topic: NBN Tasmania

Senator MacDonald asked:

Has Tasmania NBN Co received any money from the retailers to date?

In terms of revenue, could you give us an idea of what you might expect to receive by 30 June this year, and what you are projecting to receive next financial year?

Answer:

It is a matter of public record that the monthly access fee chargeable to RSPs for the NBN has been set at \$0 on an interim basis. The service providers are assisting NBN Co rollout to gather information that will facilitate future service operations and interworking with RSPs.

NBN Tasmania is responsible for the rollout of the network to the designated fibre footprint. The activation of services, from which NBN Tasmania will generate RSP revenue when the interim pricing period concludes, is dependent on the success of the marketing of the RSPs.

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Question No: 125

Hansard Ref: ECA46

Topic: Power Poles – NBN Tasmania

Senator Abetz asked:

Can you tell us about the boxes that are attached to the power poles? Are they working?

Answer:

The network access points (NAPs) on power poles connect between four and 12 premises to the network. They have been tested and are functional, but they will not be activated until the commencement of commercial services in July 2010.

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Question No: 126

Hansard Ref: ECA48

Topic: Tasmania Rollout – Retraining Period

Senator Abetz asked:

Could you tell us how many contractors were involved, and then how many workers, and then who paid their wages for that two-week period, if indeed they were paid. Did the NBN make any contribution to the retraining costs?

Answer:

Construction is managed through an agent (Aurora Energy) who has engaged a principal contractor. It is the role of the principal contractor to manage the workforce, pay wages and maintain workforce numbers and training levels necessary to fulfil the contract. The contractors supplying the services – either John Holland or their subcontractors - were responsible for the retraining costs during the shutdown.

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Question No: 127

Hansard Ref: ECA49

Topic: Tasmania Rollout – Stage 1

Senator Abetz asked:

Why were the locations Smithton, Scottsdale and Midway Point chosen as the limited geographic location for stage 1 of the Tasmania rollout?

Answer:

On 25 July 2009, the Australian and Tasmanian Governments announced that Smithton, Scottsdale and Midway Point would be the first communities in Tasmania to receive Fibre to the Premises services under the National Broadband Network.

NBN Co understands that Smithton, Scottsdale and Midway Point were chosen as a result of detailed work undertaken by Aurora Energy in support of the Tasmanian Government's proposal in the original RFP process that covered not only engineering criteria but also the need for an improvement in the level of communications services in these areas.

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Question No: 128

Hansard Ref: ECA52

Topic: Senate Question on Notice 2640

Senator Abetz asked:

In relation to Senate question on notice 2640-who decides whether a business requirement exists for travel and who provides the approval for that travel in relation to Mr Kaiser?

Can we be advised as to how much has been spent on Mr Kaiser in relation to all the matters that I have raised: travel, airfares, conferences and accommodation?

Answer:

The company's Travel and Expense Reimbursement Policy requires that all travel is to be approved by the travelling employee's manager and in Mr Kaiser's case, this is Mr Kevin Brown, CHRO and Head of Corporate Services.

As at 31 May 2010, expenses incurred by Mr Kaiser on specific matters raised are:

- (a) Taxis - \$2,750.
- (b) Airfares - \$13,031.30.
- (c) Accommodation - \$3,662.
- (d) Conferences – Nil.
- (e) Training – Nil.
- (f) (h) Communications, broadband connection and laptop and other information technology are provided by the company for all employees. Executives are issued with a laptop computer and a mobile phone which are the property of the company.
- (i) Vehicles – Nil expense : NBN Co does not provide Company vehicles;
- (j) Hospitality – Nil.
- (k) There are no other miscellaneous costs and expenses.

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Question No: 129

Hansard Ref: ECA57 and 58

Topic: NBN Trial Sites

Senator Fisher asked:

- a) Can you tell us the response in respect of each of the trial sites from the council's concern?
- b) Has NBN Co. got the approval from each council in each of the five test sites—namely, Brunswick, Townsville, Minnamurra, Kiama Downs, west Armidale and Willunga in South Australia?
- c) Can you inform the committee as to whether or not you have approval from each of those councils in each of the trial sites for aerial cabling?
- d) In respect of those council approvals that have reached a conclusion please inform us of the outcome in that regard.
- e) In respect of those council approvals that have not reached a conclusion, can you please indicate the status of that consideration and at what point in time you expect to conclude that process? Please also indicate your willingness, presumably, to let the committee know what the outcome is as soon as each has concluded.

Answer:

- a) Extensive consultation has been undertaken with multiple levels of council within the first release sites. The overwhelming response from councils has been positive with high levels of cooperation and support.
- b) NBN Co has been working with councils and relevant state authorities with respect to the planning approvals that may be required. The requirements for approvals differ from state to state. Depending upon the type of telecommunications facilities proposed in the rollout, council approval may/may not be required.

Existing Commonwealth legislation establishes a broad framework for telecommunication facilities and provides existing carriers with a number of powers and immunities. As such, some facilities are exempt from local planning controls with further exemptions provided under state and local planning legislation. NBN Co has prepared and submitted a submission report to four of the five councils (with a submission report due shortly to Moreland City Council) outlining the proposed works associated with the NBN rollout. Notwithstanding the exemptions specified within the relevant legislation, NBN Co is required to follow a number of general obligations and notification requirements including adherence to design principles and other specifications. In addition, should the type or location of the proposed infrastructure be altered from the original proposal, councils

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would be notified and the need to obtain any additional planning approvals would be investigated.

- c) In Armidale, Minnamurra and Kiama Downs first release sites aerial cabling works are permitted without consent, where located on existing electricity infrastructure by virtue of the NSW SEPP Infrastructure 2007 (Section 114 (3)). In Willunga the proposed design is wholly underground and therefore no approvals for aerial cabling are required. Discussions are still being conducted with councils in Townsville and Brunswick in relation to aerial cabling, but a positive outcome is expected. Should aerial cabling be required at a later date (e.g. within Willunga), councils would be notified and the need to obtain any additional planning approvals would be investigated.
- d) In the Townsville first release site NBN Co is currently in discussions with Townsville City Council and the QLD Department of Infrastructure and Planning regarding aerial cabling requirements and an outcome is expected shortly. All permits and notices are being supplied where required.
- e) In the Brunswick first release site NBN Co has been in discussions with Moreland City Council regarding planning requirements. NBN Co and Telstra are currently investigating options to utilise existing Telstra infrastructure and an outcome is expected shortly, with Telstra to issue all required notices. The original design proposal may be reviewed and any need for aerial cabling is subject to that review. Should aerial cabling be required, this may be subject to further investigations to ascertain the need for any planning approvals.

In the Townsville first release site NBN Co is currently in discussions with Townsville City Council and the QLD Department of Infrastructure and Planning regarding aerial cabling requirements and an outcome is expected shortly.

We will continue to keep the Committee updated on developments.

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Question No: 130

Hansard Ref: ECA60

Topic: Employer sponsored visa arrangements

Senator Cormann asked:

Do you presently employ anybody who is under an employer sponsored visa arrangement?

Answer:

NBN Co currently has seven employees who are under employer sponsored visa arrangements.

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Question No: 131

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: NBN Funding: Capital Costs - Debt

Senator Fisher asked:

1. What proportion of NBN Co's capital will be financed by debt over the next three years?
 - a. Over the next five years?
 - b. Over the next ten years?
2. What are the costs of debt for NBN Co's current financial position?
3. What are the costs of debt when NBN Co's projected investments over the next three years are taken into account?
 - a. Over the next five years?
 - b. Over the next ten years?
4. What methodology has been used to calculate NBN Co's cost of debt?
5. What market risk premium has been used to calculate NBN Co's cost of debt?
6. If a weighted average cost of capital methodology has been used, what beta value has been calculated for NBN?
 - a. What comparator firms have been used to estimate NBN Co's beta?
 - b. Why do these firms represent appropriate comparators to NBN Co?
 - c. Is NBN Co satisfied that the level of beta calculated represents an appropriate measure of NBN Co's risk profile at this point in time and over the entire economic life of the NBN?
 - d. If a weighted average cost of capital methodology has not been used, then how can NBN Co be satisfied that an assessment of NBN Co's cost of debt has been adequately conducted?
7. What risk free rate has been used for the estimate of NBN Co's cost of debt and/or in the calculation of NBN Co's weighted average cost of capital?
 - a. If treasury bonds were used, what was the time period used for these bonds (e.g. 5 year, 10 year)?

Answer:

(1) - (7)

The Government has advised NBN Co to delay its submission of its Business Case and Corporate Plan until:

- The Government has considered its response to the Implementation Study and technical and business planning inputs from NBN Co; and

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- Government and NBN Co have fully considered the implications of the Financial Heads of Agreement and the Definitive Agreements between NBN Co and Telstra

Once NBN Co has finalised its Business Case and Corporate Plan. These documents will then be submitted, as required, to our shareholder Ministers for consideration. Ministers will then determine what specific information will be made publicly available.

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Question No: 132

Hansard Ref: In Writing

Topic: NBN Funding: Capital Costs - Equity

Senator Barnett asked:

1. What methodology has been used to calculate NBN Co's cost of equity?
2. What market risk premium has been used to calculate NBN Co's cost of equity?
3. If a weighted average cost methodology has been used, what equity beta value has been calculated for NBN Co?
 - a. What comparator firms have been used to estimate NBN Co's beta?
 - b. Why do these firms represent appropriate comparators to NBN Co?
 - c. Is NBN Co satisfied that the equity beta calculated represents an appropriate measure of NBN Co's risk profile at this point in time and over the entire economic life of NBN?
 - d. If a weighted average cost of capital methodology has not been used, then how can NBN Co be satisfied that an assessment of the cost of equity has been adequately conducted?
4. If a weighted average cost of capital methodology has been used, then how has NBN Co calculated gamma?
 - a. What assumptions have been made about NBN Co's future returns to shareholders to substantiate its calculation of gamma?
 - b. What assumptions have been made about capital markets to derive its calculation of gamma? In particular, is NBN Co satisfied that the assumptions of the capital asset pricing model hold in the case of NBN Co given the extent of sunk-cost capital investment (either equity or debt) being made by the government to finance the NBN?
 - c. If NBN Co is not satisfied that the assumptions of the capital asset pricing model hold in the case of the NBN, then how have the equity and debt costs of NBN been successfully calculated?

Answer:

(1) - (4)

The Government has advised NBN Co to delay its submission of its Business Case and Corporate Plan until:

- The Government has considered its response to the Implementation Study and technical and business planning inputs from NBN Co; and
- Government and NBN Co have fully considered the implications of the Financial Heads of Agreement and the Definitive Agreements between NBN Co and Telstra

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Once NBN Co has finalised its Business Case and Corporate Plan. These documents will then be submitted, as required, to our shareholder Ministers for consideration. Ministers will then determine what specific information will be made publicly available.

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Question No: 133

Hansard Ref: In Writing

Topic: NBN Funding – Weighted Average Capital Costs

Senator Barnett asked:

1. What weighted average capital cost has been calculated for NBN Co?
 - a. Is this a pre- or post- tax rate of return?
2. If NBN Co has not calculated its weighted average capital cost, then how has it calculated the necessary rates of return to demonstrate that NBN is commercially viable, taking into account its debt and equity levels, risk profile, and market risk premium?
3. What is the estimated economic life of NBN Co's assets?
 - a. How has the estimated economic life of assets been accounted for in estimates of NBN Co's risk profile, equity costs, and debt costs?
 - b. If the economic life of NBN Co's assets has not been taken into account in the estimates of NBN Co's risk profile, equity costs, and debt costs, then how can NBN Co be satisfied that an appropriate commercial rate of return has been calculated for NBN?

Answer:

(1) – (3)

The Government has advised NBN Co to delay its submission of its Business Case and Corporate Plan until:

- The Government has considered its response to the Implementation Study and technical and business planning inputs from NBN Co; and
- Government and NBN Co have fully considered the implications of the Financial Heads of Agreement and the Definitive Agreements between NBN Co and Telstra

Once NBN Co has finalised its Business Case and Corporate Plan, these documents will then be submitted, as required, to our shareholder Ministers for consideration. Ministers will then determine what specific information will be made publicly available.

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Question No: 134

Hansard Ref: In Writing

Topic: Staffing – NBN Co

Senator Barnett asked:

- a) How many permanent staff recruited since additional estimates (Feb 2010)?
- b) What level are these staff?
- c) How many temporary positions exist or have been created since additional estimates?
- d) Since additional estimates, how many employees have been employed on contract and what is the average length of their employment period?

Answer:

- a) There have been 98 permanent staff recruited since additional estimates in February 2010.
- b) These staff are at the following levels:

<u>Org Level</u>	<u>No. of Staff</u>
2	2
3	13
4	48
5	32
6	3

* Level 2 represents the senior management team reporting directly to the CEO

** Level 3 is a middle management role reporting to the Executive Team or heads of business groups.

- c) None
- d) 14 employees have been employed on contract with the average length of their employment being 5 months.

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Question No: 135

Hansard Ref: In Writing

Topic: Staffing – efficiency dividend/budget cuts – NBN Co

Senator Barnett asked:

Have staffing numbers been reduced as a result of the efficiency dividend and/or other budget cuts?

- Since the efficiency dividend was introduced?
- Since additional estimates?

If so, where and at what level?

Are there any plans for staff reduction? If so, please advise details ie. reduction target, how this will be achieved, services/programs to be cut etc.

If your Department/agency has been identified in the budget as delivering further efficiencies (savings), how will these be delivered? (for example, if the budget papers say ‘improvement to strategic work practices’ or similar, what are these and how will they be delivered?)

What changes are underway or planned for graduate recruitment, cadetships or similar programs? If reductions or increases are envisaged please explain including reasons, target numbers etc.

Answer:

As a wholly-owned Government Business Enterprise funded by capital injections, NBN Co is not subject to the application of the efficiency dividend.

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Question No: 136

Hansard Ref: In Writing

Topic: Government Advertising – NBN Co

Senator Barnett asked:

What communications programs has the Department/Agency undertaken since additional estimates and what communications programs are planned to be undertaken?

For each program, what is the total spend?

(by ‘communications program’ it is meant communication of a government message to the public – possibly by advertising (print, television etc), possibly through the erection of signs, plaques etc, or through other mediums. The recent (current) Government TV advertising campaign on health reform and specific health initiatives are examples, BER signage is an example, advertising on the Government’s proposed new tax system would be another example.)

A breakdown of how much was spent/is planned to be spent on each program/initiative should be provided.

Answer:

NBN Co has not engaged in any explicit advertising campaigns designed to communicate a government message. The company has established an internet site for ongoing business purposes including explaining its role, recruitment of staff and announcement of requests for proposals as part of its procurement activities. It has also undertaken community relations activities including limited print advertising (to advertise community information sessions) in First Release Sites.

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Question No: 137

Hansard Ref: In Writing

Topic: Government Payment of Accounts – NBN Co

Senator Barnett asked:

Has the portfolio/agency paid its accounts to contractors/consultants etc in accordance with Government policy in terms of time for payment (ie. within 30 days)? If not, why not, and what has been the timeframe for payment of accounts? Please provide a breakdown, average statistics etc as appropriate to give insight into how this issue is being approached.

For accounts not paid within 30 days, is interest being paid on overdue amounts and if so how much has been paid by the portfolio/department agency for the current financial year and the previous financial year?

Where interest is being paid, what rate of interest is being paid and how is this rate determined?

Answer:

NBN Co is not subject to the Government's policy on 30 day payment of accounts. As a commercially operated Government Business Enterprise, it has a number of contractual payment arrangements with suppliers. However, payment of accounts is generally made within 30 days from the date of receipt of invoice. Interest is not being incurred or paid on overdue amounts for the current and previous financial years.

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Question No: 138

Program No. NBN Co Limited

Hansard Ref: In Writing

Topic: Ka-band Satellite

Senator Birmingham asked:

Has NBN Co made any decisions about provision of interim and Ka-band satellite capacity?

Does NBN Co have a view on Ka-band or L-band satellite capacity to provide an interim solution?

Does NBN Co have a view about an integrated solution or does it prefer to build its own customer capacity for next generation satellite capacity?

Will NBN Co adopt the NBN Implementation Study's recommendation to consider a leasing model utilising third-party next generation third-party satellite infrastructure?

Answer:

No decisions have yet been made by NBN Co on the final or interim satellite solutions.

Following its approach to the market in January 2010 with a Request for Capability Statements from experienced satellite operators, NBN Co is considering a number of different solutions to provide the best broadband services in the shortest timeframes possible. The final satellite solution will be determined after detailed consideration of the value for money and risks of different satellite delivery options including turnkey solutions, in-orbit delivery or on-ground delivery of satellites.

It would be premature to speculate on any business solution ahead of final decisions in this area.