

## TREASURY EXECUTIVE MINUTE

Minute No.

22 December 2009

Treasurer

### THE NATIONAL BROADBAND NETWORK - UPDATE

**Timing:** For information.

**Issue:** The attached paper, prepared by the Department of Broadband, Communications and the Digital Economy (DBCDE), provides an update on the National Broadband Network (NBN) initiative. Key, preliminary results from the business case modelling undertaken by the NBN Implementation Study Lead Adviser (McKinsey/KMPG) include the following.

- The cost of building the NBN is within the \$38-\$43 billion range announced by the Government in April 2009. This does not include:
  - the impact of any deal with Telstra. A deal could lower the build costs of the NBN and accelerate customer take-up and hence revenues;
  - any Government subsidies that may be required to support the ongoing operation of the network, particularly the deliver of services in regional and remote areas – the need for such subsidies remains unclear at this stage; or
  - costs that may be incurred in allocating ‘digital dividend’ spectrum for delivery of wireless services to regions outside of the fibre network footprint.
- It will be difficult to attract private equity investment during the build phase, and such investment may hinder the achievement of competition objectives, but NBN Co should be able to take on debt in its own name around year 5 of the build.
- Consequently, the Government may have to invest more in NBN Co than the \$11 billion that is in the forward estimates – the early analysis suggests between \$2.5b to \$3b more. Any additional investment by the Government in NBN Co requiring additional borrowing will increase both gross and net debt.

Some important policy choices will need to be made by the Government early in 2010 to facilitate the NBN rollout and which could have significant consequences for the costs of the network and competition in the telecommunications market. Key considerations will include:

- The mix of technologies and funding mechanisms used to service the last 10 per cent of premises, and implications for NBN Co’s pricing of services and the Government’s planned ‘digital dividend’ spectrum auctions.
- The extent to which NBN Co receives some temporary protection from competition during the network build phase to help underpin its viability.
- The extent of ‘future-proofing’ of the design of the NBN and the structure of NBN Co to promote infrastructure based competition following the network build phase.

Noted

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- The accompanying paper prepared by DBCDE provides an update on the various elements of the NBN initiative including the early rollout in Tasmania, the Regional Backbone Blackspots Program, the NBN Implementation Study and negotiations between NBN Co and Telstra.
  - In relation to the latter, NBN Co announced on 18 December 2009 that it had formalised ‘Terms of Engagement’ with Telstra to facilitate Telstra’s potential participation in the rollout of the NBN, but noted that commercial terms have yet to be agreed.
    - : NBN Co’s statement together with statements by Telstra and the Minister for Broadband, Communications and the Digital Economy are attached.

[s.34(3)]

- The following areas have been consulted in the preparation of this minute: Budget Policy Division.

Contact Officer:

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## ADDITIONAL INFORMATION

- On 7 April 2009, the Australian Government announced the establishment of a new company to build and operate a new super fast National Broadband Network (NBN). The Government stated that:
  - it would be the majority shareholder of this company, but significant private sector investment in the company is anticipated;
  - it intends to sell down its interest in the company within 5 years after the network is built and fully operational, consistent with market conditions, and national and identity security considerations;
  - this company jointly owned by the Government and the private sector will invest up to \$43 billion over 8 years to build the national broadband network; and
  - the new investment is also the biggest reform in telecommunications in two decades because it delivers separation between the infrastructure provider and retail service providers. This means better and fairer infrastructure access for service providers, greater retail competition, and better services for families and businesses.
- The key features of the NBN as announced by the Government included that it will:
  - connect homes, schools and workplaces with optical fibre (fibre to the premise or 'FTTP'), providing broadband services to Australians in urban and regional towns with speeds of 100 megabits per second - 100 times faster than those currently used by most people – extending to towns with a population of around 1,000 or more people;
  - use next generation wireless and satellite technologies that will be able to deliver 12 megabits per second or more to people living in more remote parts of rural Australia;
  - provide fibre optic transmission links connecting cities, major regional centres and rural towns;
  - be Australia's first national wholesale-only, open access broadband network;
  - be built and operated on a commercial basis by a company established at arm's length from Government and involve private sector investment; and
  - be expected to be rolled-out, simultaneously, in metropolitan, regional, and rural areas.
- The Government's plan of action for implementing the NBN initiative incorporates the following:
  - an Implementation Study to determine the operating arrangements, detailed network design, ways to attract private sector investment – for rollout early 2010, and ways to provide procurement opportunities for local businesses;
  - early rollout of the fibre network and next generation wireless services in Tasmania, which has now commenced;

- the Regional Backbone Blackspots Program to address 'black spots' through the timely rollout of fibre optic transmission links connecting cities, major regional centres and rural towns - delivering improvements to telecommunication services in the short term;
  - : a contract has been awarded to Nextgen Networks to roll out almost 6,000km of new fibre optic backbone links under the \$250m Regional Backbone Blackspots Program that will connect over 100 regional locations along the routes to the six priority areas of Geraldton, Darwin, Emerald and Longreach, Broken Hill, Victor Harbor, and the South West Gippsland region;
- legislative changes that will govern the national broadband network company and facilitate the rollout of fibre networks, including requiring greenfields developments to use FTTP technology from 1 July 2010;
- legislation, currently before the Parliament, that:
  - : reforms the telecommunications access regime and the telecommunications competition provisions in the Trade Practices Act (Parts XIC and XIB, respectively); and
  - : prevents Telstra from acquiring spectrum for advanced wireless broadband unless it submits an enforceable undertaking acceptable to the ACCC to structurally separate and, subject to the discretion of the Minister for Broadband, divest its ownership of the hybrid fibre coaxial (HFC) network and its interest in Foxtel.