



Steven Joyce

16 SEPTEMBER, 2009

Ultra-fast broadband investment proposal finalised

Communications and Information Technology Minister Hon Steven Joyce today released the details of the government's \$1.5 billion ultra-fast broadband investment initiative.

"Access to ultra-fast broadband is part of the essential infrastructure of a productive and growing economy and will be crucial to New Zealand improving its competitive advantage in the global market.

"The future of broadband is in fibre, and taking it right to the home will bring significant gains for productivity, innovation and global reach.

"The government is committed to partnering with the private sector to accelerate the roll-out of ultra-fast broadband services to 75 percent of New Zealanders within the next ten years.

"Submissions, alternate approaches and a range of regulatory issues have been carefully considered, and I believe this proposal will give best effect to the government's goal."

Key highlights of the proposal include:

- An open, transparent partner selection process, which will be initiated in the next month.
- Government investment directed to an open access, wholesale-only, passive fibre network infrastructure.
- A new Crown-owned investment company ("Crown Fibre Holdings"), which will be operational by October, to carry out the government's partner selection process and manage the government's investment in fibre networks.
- Crown Fibre Holdings and each partner establishing a commercial vehicle, a "Local Fibre Company" (LFC), to deploy fibre network infrastructure and provide access to dark fibre products and, optionally, certain active wholesale Layer 2 services.
- Provision for national and regionally-focused proposals, as well as consortium and proposals aggregating any combination of LFC regions.
- Independence, equivalence and transparency requirements for LFCs.
- Expansion to 33 candidate coverage areas based on the largest urban areas (by population in 2021).

Mr Joyce says a lot of work has gone into getting the approach right for the government to co-invest with the private sector in broadband infrastructure.

"Already a number of companies have shown interest in the government's broadband initiative. Now it's time to get on with finding the right partners to build these networks."

Further details on the government's proposal are set out in an overview document available at www.medi.govt.nz/ultra-fast-broadband. Details and criteria for partner selection will be made available as part of the partner selection process.

Questions and Answers

Why is the government investing in broadband infrastructure?

Private sector companies have decided, on behalf of their shareholders and as a commercial decision, not to invest in a nationwide network of fibre-to-the-home at this point in time. The government understands this, and so wishes to assist and work with the private sector in improving the business case for ultra-fast broadband.

The government is also getting involved in order to encourage the provision of widespread open access dark fibre services, which will facilitate the best possible competition outcomes in emerging markets and encourage innovation in wholesale and retail services.

What is the government's objective for dark fibre infrastructure investment?

To accelerate the roll-out of ultra-fast broadband to 75 percent of New Zealanders over ten years, concentrating in the first six years on priority broadband users such as businesses, schools and health services, plus greenfield developments and certain tranches of residential areas.

Why is the government only investing in dark fibre?

Government investment at that level will facilitate the competitive commercial provision of ultra-fast broadband services over fibre with the minimum regulatory intervention. In very simple terms, this is the most "raw" access to the underlying infrastructure, and provides the best competition outcomes because the wholesale customer has full control and flexibility and has the ability to innovate in downstream services.

How has the government's broadband proposal changed?

The government's proposal is consistent with the draft consulted on earlier this year, with modifications that provide greater flexibility for proposals, more regional coverage, specific design requirements for open access products, and more detail on commercial arrangements and technical issues.

What is the process for partner selection?

An 'Invitation to Participate' (ITP) will be released for proposals for co-investment in fibre networks. The initial ITP will be released by the Ministry of Economic Development in the next month, pending the formation of a Crown-owned investment company ('Crown Fibre Holdings' or CFH), which will be responsible for assessing proposals and selecting partners.

The ITP will set out the terms and conditions of any investment in line with the UFB Overview document released today.

Who will be eligible to submit a partnership proposal?

Any entity or consortium of entities, including local or regional government, iwi, trusts or equity funds will be eligible to submit proposals.

How can potential candidates participate in the process?

The government will publish an ITP which interested parties can respond to.

What are the criteria for partner selection?

The detail of the ITP process will be clearly communicated closer to the time, including via the Ministry of Economic Development's website at www.med.govt.nz/ultra-fast-broadband.

What if some regions are not ready yet?

It is expected that the CFH will hold future tenders for those regions who are currently not yet ready to participate.

How will the government balance national and regional proposals?

The tender process will allow for both. It will allow for proposals focused on individual candidate regions, proposals focused on any combination or aggregation of candidate regions, and national proposals.

What are the candidate regions? Are proposals limited to these regions?

The list of candidate regions has been expanded to 33 regions based on the most populous urban areas using 2021 population projections. Proposals can be for all or parts of these candidate regions and may also include other adjacent regions that are not listed where it is economically sensible to do so. CFH will have the flexibility to negotiate the boundaries of proposed coverage areas with prospective partners, with an overriding mandate of achieving the government's 75 percent coverage target.

Does the government have a preferred partner in mind?

No - the process of partner selection will be a transparent competitive process based on clear criteria. The government encourages credible candidate providers to participate in the process.

What is the timeframe for partner selection?

The process will be initiated in the next month by the Ministry of Economic Development, pending formation of CFH. The overall process to completion of commercial agreements with successful partners is expected to conclude in the June quarter of 2010.

What is the timetable for establishment of Crown Fibre Holdings?

CFH will be formed in late October and will assume responsibility for the partner selection process from that time.

What will be the role of Crown Fibre Holding?

The core role of CFH will be to operate the contestable partnership selection process and to manage the government's investment in fibre networks. It will be tasked with:

- assessing responses to the ITP
- investing the Government's \$1.5 billion in fibre companies so as to achieve the Government's 75 percent ultra-fast broadband target as quickly and efficiently as possible
- appointing board members to government-funded networks
- monitoring the performance of the government's investment
- approving technical and operational standards to achieve national consistency across networks.

What is the process for establishing Crown Fibre Holdings?

The Chair and Board members of CFH will be appointed in October. The Ministry of Economic Development will provide support and expertise to CFH for a transitional period, until staff to the CFH are appointed.

What are the government's plans for rural broadband?

An announcement on the government's rural broadband strategy is imminent.

What was the Government's response to Telecom's proposal?

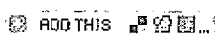
Telecom put forward an alternate nationwide proposal to the Government's preliminary proposals. The Telecom proposal has been carefully assessed by MED. At this point in time, Telecom's proposal is not sufficiently attractive to justify moving away from a contestable regionally-based process. Relative to indications from potential partners, Telecom's proposal covered fewer homes and businesses, only provided ducts and not the fibre itself, and did not clearly result in significant additional private sector expenditure above "business and usual" levels.

Are there any issues with Telecom participating in the competitive tender process?

The Government is very supportive of any potential partners who can meet the tender criteria. We have specifically stated that bids covering a combination of regions, including national bids, will be acceptable.

Will Telecom have to structurally separate its network business to participate?

Any such decisions are up to Telecom. The Government has made it clear that it will only invest money into fibre companies that are not controlled by shareholders who also operate retail telecommunication businesses. The Government is also clear that potential partners who already own fibre assets can table options that involve those fibre assets being vended into any new fibre companies.



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