



**COLIN KRUGER**

## Viability on the line as regional deal throws broadband network off balance

### Change in priorities could have an impact on NBN's economics.

IF YOU believe the federal opposition, and some industry insiders, the economics of the National Broadband Network has been turned on its head by the sudden need to prioritise the build in regional Australia.

One problem with this argument is that none of these parties would actually know.

One of the criticisms of the NBN is that little information has been made available about this huge project to allow proper independent judgment of its viability.

Few know the implications of Labor's deal with the independents, other than Communications Minister Stephen Conroy and NBN Co chief Mike Quigley.

Complaining about regional broadband services being made a priority also misses an important point: regional services is the NBN's raison d'être. Aside from dismantling Telstra's monopoly on telecommunications services, providing future-proof broadband

services to the continental fringes is about the only thing the NBN can deliver that private enterprise can't.

The cut-throat broadband competition in major population centres amply demonstrates the private sector's ability to make a business case in built-up areas.

Internet provider Dodo unveiled a three-terabyte offering yesterday and cheekily committed to offering an unlimited download service once the NBN was up and running.

The NBN, if successful, will extend this competition to 93 per cent of households, along with new services that will hopefully justify the \$43 billion price tag.

The NBN, by its very existence, recognises that urban telecom users will need to subsidise the unviable regional arms of the network — not much different to what Telstra does with its copper line service today.

So the independents' insistence on a single wholesale price across the country should not be too much

of a surprise, especially since Conroy has actively championed this point himself. This isn't to say that re-prioritising the network build based on political considerations, rather than economic ones, does not have the potential to dramatically affect the network's economics. It could jeopardise the government's plans to use private enterprise to fund the back half of the NBN's rollout.

The idea was that revenue from parts of the network already built — presumably in viable urban areas — would provide enough income to raise debt from private sources.

Conroy says the change in priorities will not add to the network's eight-year implementation, or its \$43 billion budget, despite the regional push potentially frontloading the cost of the unviable part of the business. But he would say that, wouldn't he?

If there is an issue, it should make for an interesting meeting next week when Conroy is expected



to detail the new priorities with Quigley and square the circle.

It will be some time before independent analysts have enough information to give a proper verdict on the viability of the NBN. The meeting is not expected to include the government's formal response to the \$25 million implementation study from McKinsey.

NBN Co needs Conroy's response to the implementation study before it can develop its three-year business plan, which will then be presented to the minister. For Telstra shareholders the only concern appears to be whether the government collapses and a fresh poll delivers the Coalition to power with an NBN-killing mandate.

The \$11 billion carrot for its co-operation with the NBN is looking

very attractive to investors who have watched the erosion of telecom's lucrative fixed-line business accelerate.

As telecom analysts from Citi put it recently: "The cash-heavy deal provides support for earnings and dividends long-term in the face of an uncertain operational outlook."

Telstra's negotiations with NBN Co and Conroy could be affected by the regional emphasis, but it's hard to say what the overall effect would be.

While a quicker regional rollout will open these markets to more competition for Telstra, it also means the telco will be able to scrap its copper network in these areas much more quickly, along with significant support and maintenance costs.



# Crossed wires over new regional focus



**I**f you believe the federal opposition and some industry insiders, the economics of the national broadband network has been turned on its head by the sudden need to give priority to its introduction in regional Australia.

One problem with this argument is that none of them would know.

One justifiable criticism of the huge project is that little information has been made available about it to allow proper independent judgment of its viability.

Few people – other than Communications Minister, Stephen Conroy, and his NBN Co chief, Mike Quigley – know the implications of Labor's deal with the independents.

Complaining about regional broadband services being made a priority also misses an important point. Regional services is the network's *raison d'être*.

Aside from dismantling Telstra's monopoly on telecommunications services, providing future-proof broadband services to the fringes is about the only thing the NBN can deliver that private enterprise cannot.

The cut-throat broadband competition in the cities amply demonstrates the private sector's ability to make a business case in built-up areas, although the NBN will still play a crucial role in helping them keep up with the exponential

growth in data services.

An internet provider, Dodo, unveiled a three terrabyte offering yesterday and cheekily committed to offering an unlimited download service once the NBN is running.

The NBN, if successful, will extend this competition to 93 per cent of households, along with new services that will hopefully justify the \$43 billion price tag.

The NBN, by its very existence, recognises that urban users will need to subsidise the unviable regional arms of the network – not much different to what Telstra does with its copper line service today.

So the independents' insistence on a single wholesale price across the country should not be too much of a surprise, especially since Conroy has championed this point himself.

Changing the rollout priorities based on political considerations rather than economic ones will, however, have the potential to effect the network's economics. It could jeopardise the government's plans to use private enterprise to fund the back half of the network rollout. The idea was that revenue from parts of the network already built – presumably in viable urban areas – would provide enough income to raise debt from private sources.

Conroy has said that the change in priorities will not add to the network's eight-year implementation, or its \$43 billion budget, despite the regional push potentially front-loading the cost of the unviable part of the business. But he would say that, wouldn't he?

If there is an issue, it should make for an interesting meeting next week

when Conroy is expected to detail the new priorities with Quigley and square the circle.

In any case, it will be some time before independent analysts have enough information to give a proper verdict on the viability of the NBN.

Next week's meeting is not expected to include the government's formal response to the \$25 million implementation study from McKinsey.

NBN Co needs Conroy's response to the implementation study before it can develop its three-year business plan, which will then be presented to the minister.

For Telstra shareholders, the only concern appears to be whether the government collapses and fresh elections give the Coalition power and an NBN-killing mandate.

The \$11 billion carrot for Telstra's co-operation with the NBN is looking attractive to investors, who have seen the erosion of the lucrative fixed line business accelerate.

As telecom analysts from Citi put it recently: "The cash-heavy deal provides support for earnings and dividends long-term in the face of an uncertain operational outlook."

Telstra's negotiations with NBN Co and Conroy – stalled by the fractious election result – could be affected by the regional emphasis, but it's hard to say what the overall effect would be.

While a quicker regional rollout will open these markets to more competition for Telstra, it also means it will be able to scrap its copper network in these areas much more quickly, along with significant support and maintenance costs.



# Regional services at the heart of NBN existence

**COLIN KRUGER**

If you believe the Federal Opposition and some industry insiders, the economics of the national broadband network has been turned on its head by the sudden need to give priority to its introduction in regional Australia. One problem with this argument is that none of them would know.

One justifiable criticism of the huge project is that little information has been made available about it to allow proper independent judgment of its viability.

Few people — other than Communications Minister Stephen Conroy and his NBN Co chief, Mike Quigley — know the implications of Labor's deal with the independents.

Complaining about regional broadband services being made a priority also misses an important point. Regional services are the network's *raison d'être*.

Aside from dismantling Telstra's monopoly on telecommunications

services, providing future-proof broadband services to the fringes is about the only thing the NBN can deliver that private enterprise cannot.

The broadband competition in the cities amply demonstrates the private sector's ability to make a business case in built-up areas, although the NBN will play a crucial role in helping them keep up with exponential growth in data services.

An internet provider, Dodo, unveiled a three-terabyte offering yesterday and cheekily committed to offering an unlimited download service once the NBN is running.

The NBN, if successful, will extend this competition to 93 per cent of households, along with new services that will hopefully justify the \$43 billion price tag.

The NBN, by its very existence, recognises that urban users will need to subsidise the unviable regional arms of the network — not much

different from what Telstra does with its copper line service today.

So the independents' insistence on a single wholesale price across the country should not be too much of a surprise, especially since Senator Conroy has championed this himself.

Changing the rollout priorities based on political considerations rather than economic ones, will, however, have the potential to affect the network's economics.

It could jeopardise the Government's plans to use private enterprise to fund the back half of the rollout. The idea was that revenue from parts of the network already built, presumably in viable urban areas, would provide income to raise debt from private sources.

For Telstra shareholders, the only concern appears to be whether the Government collapses and fresh elections give the Coalition power and an NBN-killing mandate.

SYDNEY MORNING HERALD



**New: Prime Minister Julia Gillard and Senator Stephen Conroy at the NBN launch.**