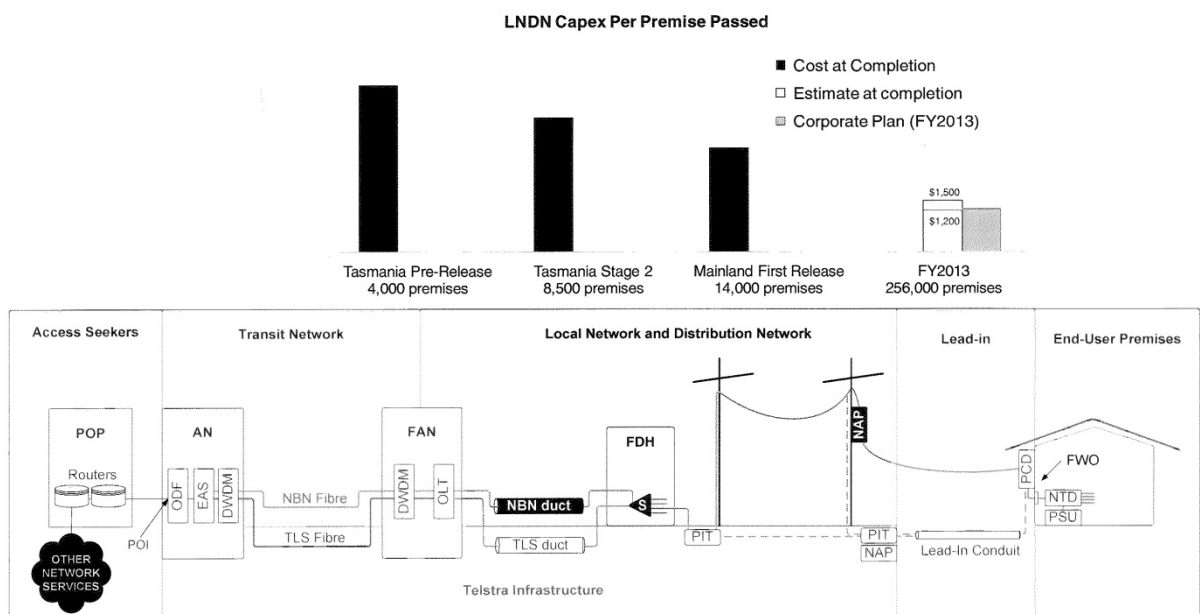


Dissenting Report by Coalition Members and Senators

1 Lack of Transparency on NBN Build Costs

- The capital cost of the NBN fibre roll out per premise is the single most important determinant of the implications of the Government's policy for end user broadband and telephony prices over time.
- In the October Joint Committee on the NBN hearing and again in February estimates, NBN Co presented an indicative breakdown of the cost per premise passed of the fibre local network and distribution network. Indicative costs have been provided for the rollout so far, and for what NBN Co forecasts costs per premise will be in 2013.
- The relevant slide is included below:



- While these slides provide at least some information, it is important to note the data that matters – on premises which have been completed – is not transparent. On the contrary it is deliberately imprecise. The graphs suggest per premise costs are coming down. But they do not provide dollar figures for what actual costs have been incurred so far during each phase of the rollout, nor how these compare to the originally budgeted figures.
- The most important capex cost information (the estimate for the ‘volume rollout’ which will account for most fibre deployed) is just a prospective estimate – there is no real world data provided.
- The graph does allow a rough comparison of capex costs in each construction phase so far as a multiple of the per premise FTTP cost estimated in the NBN Co Corporate Plan:
 - ⇒ Tasmania Pre Release – 4.125x
 - ⇒ Tasmania Stage 2 – 3.25x
 - ⇒ Mainland First Release – 2.5x
 - ⇒ Volume Rollout (FY2012-13 Forecast) – 1.25x
- In each case the figure is substantially higher than the current NBN Co budget.
- Additionally, the NBN graph provided to Parliament does not in fact provide a comprehensive estimate of per premise costs for NBN Co’s FTTP. Rather it is an estimate of costs across a portion of the fibre network – the local network and distribution network; in layman’s terms, what it’s costing to get fibre from the exchange to the street corner.
- The figures thus exclude the capex associated with running fibre through the lead-in conduit (or overhead from a pole) or equipment and installation costs associated with terminating the network at the end-user premises.
- The NBN has also responded to a question on notice regarding the cost per premise of the NBN’s fibre network by refusing to detail costs. In its response, NBN Co stated:

“NBN Co’s Chief Financial Officer, Mr Robin Payne, provided information relating to cost per premises and cost trends at the JCNBN hearing on 30 October 2012 (Hansard pp.6-7). Also, Mr Quigley has previously provided information about why cost-per-premises figures can be commercially sensitive, particularly when

construction procurement processes are underway. Please see October 2011 JCNBN Hearing Hansard pp. 21-22.”¹

- The fully allocated capital cost of FTTP per premise is both crucial to the economics of the network and highly variable. Evidence from other markets suggests the average figure over a substantial deployment can be as little as <\$500 in the case of fibre rolled out by incumbents in densely populated cities with well maintained and expansively designed underground ducts to >\$5000 in the case of FTTP serving very low density areas or in challenging terrain.
- The 2012-2015 NBN Corporate Plan appears to be predicated on an average capex spend (including full allocation of all capex shared across the NBN’s three networks) of approximately \$2700 per premise within the fibre footprint.
- The Coalition acknowledges some areas of investment will appear high if reported on a current per premise basis, because assets such as the fibre transit network are being built up front but will eventually be amortized over larger numbers of premises than at present. Any resulting distortions can be corrected by explicitly breaking capex into shared and per premise components, and making transparent, reasonable assumptions about amortization of the former.
- NBN Co has chosen not to release any of this information either to Parliament or taxpayers. Therefore at present there is no visibility into whether NBN Co’s capex estimates are plausible or not.
- The bottom line is that Australia’s largest infrastructure project in history is a black box. The Gillard Government and NBN Co are simply refusing to disclose the actual evidence on deployment costs that must surely exist in robust form after running fibre past 82,000 premises. Taxpayers funding the project have every reason to question why they would not be provided with this data.
- The right hand bar of this slide is labelled “FY2013 256,000 premises’ and shows two numbers, \$1500 and \$1200. When read in conjunction with the other (unlabelled) bars showing much higher capex per premise at earlier stages of the rollout, the slide is evidently intended to convey the impression that capex per premises passed will be in the range \$1200-1500 by the end of FY2013.

¹ NBN Co, (2013), “Answers to Questions on Notice, Public Hearing 30 October 2012”, Question 356

- During the hearing officials of NBN sought to reinforce the impression that the capex per premises passed would be reduced to this level by quoting the experience of Chorus in New Zealand.

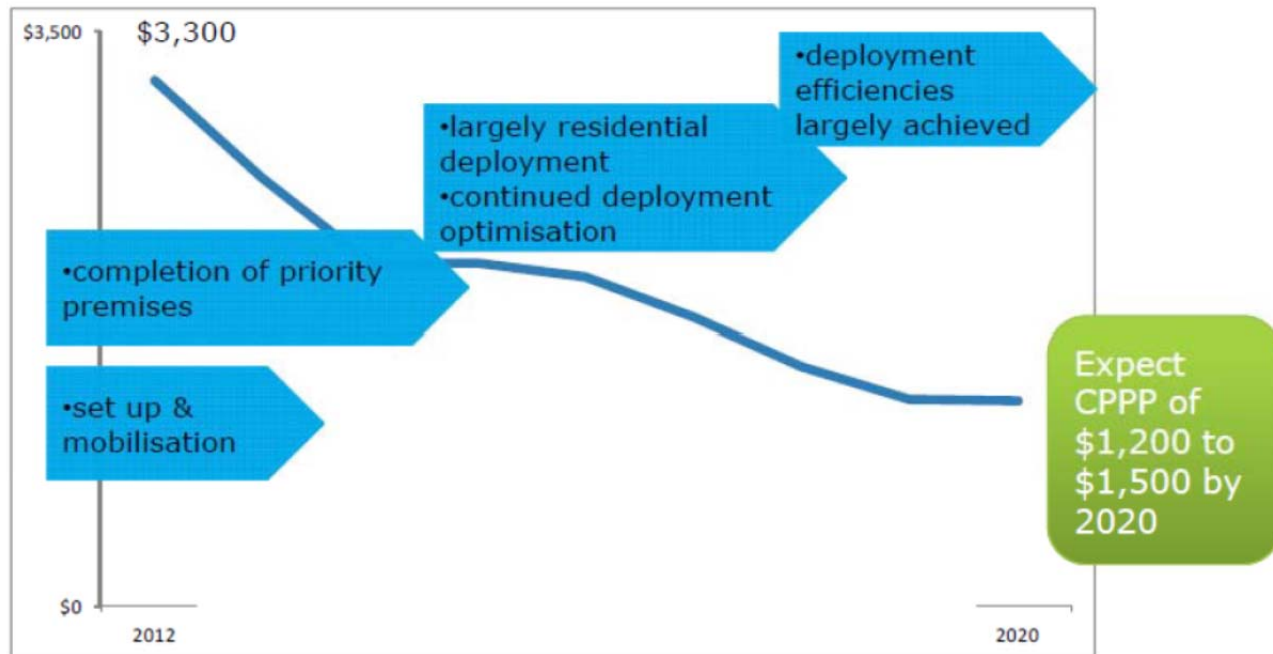
Mr Quigley: What is very important for the committee is the number on the right. Obviously, what is important is that it has come down substantially. There were low numbers to start with. With the number on the right we are saying that with our corporate plan – as you can see in the yellow there – given our best estimate now and given all the data we have, that we are confident that we are going to come in for FY2013 between \$1,200 and \$1,500 for this component of the cost per premise passed, which is consistent with the data you would have seen in New Zealand.

Mr Payne: I think that Chorus from New Zealand have fairly recently published data showing that cost per premise is falling from around \$3,300 last year to \$2,700, \$2,900 this year. They are targeting, I think, around \$1,200 to \$1,500 in the long run.²

- In September 2012 Chorus published a document showing it expects connection costs per premises to fall³. It shows a current cost per premises of \$3,300 – and it not dropping to a rate of \$1200-1500 until 2020.

² Hansard, Committee Hearing, Tuesday October 13 2012, p 6

³ Chorus, (2012), “Chorus Investor Slideshow: September 2012”, p.32



- Coalition members consider that it is misleading of Mr Quigley to suggest that the experience of Chorus in New Zealand supports NBN Co's forecast of reaching a cost per premises passed of \$1200 to \$1500 by the end of FY2013. On the contrary, the Chorus experience suggests that it will take many years, and a rollout volume substantially higher than NBN Co has achieved, before it is able to reduce the cost per premises to this level.
- It is also worth bearing in mind that labour costs in New Zealand are materially lower than they are in Australia.

Recommendations

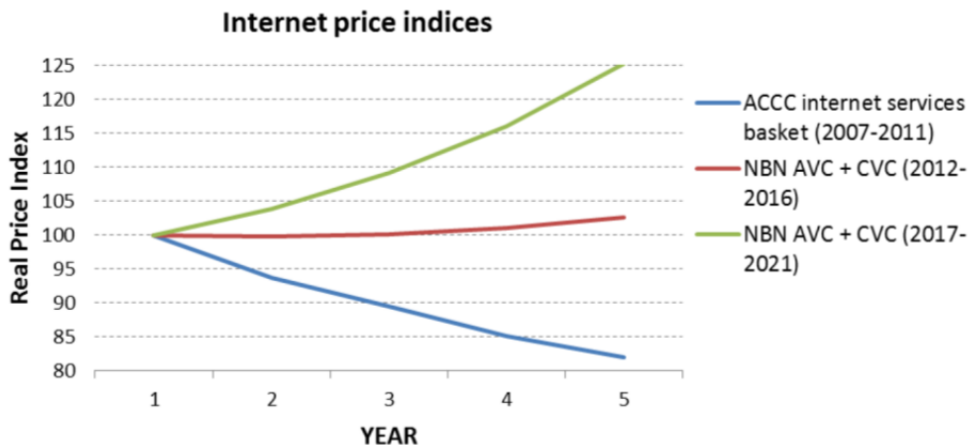
- NBN Co to immediately publish full capital expenditure figures per premise (including all direct costs of the relevant network, and an explicit and transparent allocation of transit and other shared or indirect capital costs between currently passed and future premises) for:
 - ⇒ The cohort of premises passed with fibre in brownfield areas.
 - ⇒ The cohort of premises passed with fibre in greenfield areas.
 - ⇒ The cohort of premises covered by the fixed wireless network.

- NBN Co should also provide a comparison against the assumed costs contained in the 2012-15 Corporate Plan and should publish trends in cost over time so that it is able to assess the extent to which the NBN Co's 'learning curves' have led to gains.

2 Telcos Raise Concerns Over Proposed NBN Price Hikes

- Modelling conducted by Optus and submitted to the ACCC suggest that under the current Special Access Undertaking proposed by the NBN Co to the ACCC, it is likely that there will be significant fixed line price increases after a long period of falling prices.
- Assuming fixed broadband usage (in terms of data volumes) increases by around 28 per cent per year which is its current trend, Optus found the SAU and NBN Co's proposed pricing will drive a 32.3% increase in real prices for end users over the next decade⁴.

FIGURE 3



- Telstra wrote to the ACCC stating that if usage grew 1 per cent per year, prices would rise 3 per cent, but "using the more realistic assumption that usage increases by 30 per cent per annum, the CAGR for the basket of AVC and CVC services purchased by end-users is 19

⁴ Optus, (2012), "Optus Submission to the ACCC Consultation Paper", p.56, available online at [http://www.accc.gov.au/content/item.phtml?itemId=1099505&nodeId=1a6f2523b5c77adccaa1eb46da666601&fn=Optus%20submission%20-%20SAU%20consultation%20paper%20\(18%20January%202013\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=1099505&nodeId=1a6f2523b5c77adccaa1eb46da666601&fn=Optus%20submission%20-%20SAU%20consultation%20paper%20(18%20January%202013).pdf)

per cent”⁵. The monthly price of wholesale broadband (across a basket of plans) would rise from \$28 in 2013 to \$145 in 2028.

- Additionally, it is concerning to Coalition members that the NBN Co has explicitly acknowledged that its current prices reflect neither its costs, nor the charges needed to recover its reasonable costs and make the return on invested capital that has been claimed by the Government.
- On January 14, 2013, the NBN Co’s General Manager Engagement and Group Coordination Richard Home stated in a letter lodged with the ACCC: “The initial prices (as set out in the SAU) were developed in consultation with access seekers so as to enable a smooth transition for end users from legacy networks to the NBN. As such the initial prices are not the result of modeling of NBN Co’s costs and demand and NBN Co has been very clear on this in its consultation with access seekers.”⁶
- The implication of this admission for consumers is that the Government’s frequent assertions that prices for ADSL2+ equivalent services over the NBN will remain at current levels have no basis in economic reality.

Recommendations

- That the Government submit the NBN project to a rigorous cost benefit analysis.
- That such an analysis include credible estimates of construction costs that incorporate actual construction data, credible estimates of revenues given current trends in the global telecommunications market, and the resulting implications for end user prices given NBN Co’s currently proposed SAU and pricing.

⁵ Telstra, (2012), “Telstra Submission to the ACCC Consultation Paper”, pp.67-68, available online at

[http://www.accc.gov.au/content/item.phtml?itemId=1099509&nodeId=9529f1bc961b9371229b6e5a6fecccfa&fn=Telstra%20submission%20-%20SAU%20consultation%20paper%20\(18%20January%202013\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=1099509&nodeId=9529f1bc961b9371229b6e5a6fecccfa&fn=Telstra%20submission%20-%20SAU%20consultation%20paper%20(18%20January%202013).pdf)

⁶ NBN Co, (2013), “NBN Co Special Access Undertaking”, available online here:

[http://www.accc.gov.au/content/item.phtml?itemId=1097798&nodeId=74050df7815c2c03116ed42b59af5d51&fn=Letter%20from%20NBN%20Co%20-%20Response%20to%20Optus%20on%20request%20for%20financial%20data%20\(14%20January%202013\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=1097798&nodeId=74050df7815c2c03116ed42b59af5d51&fn=Letter%20from%20NBN%20Co%20-%20Response%20to%20Optus%20on%20request%20for%20financial%20data%20(14%20January%202013).pdf)

- That the Government investigate means of delivering super fast broadband that permit a more prudent level of investment, and hence less pressure from NBN Co for regulatory settings that enable aggressive uplift and recovery of costs through rapid increases in real revenue per user.

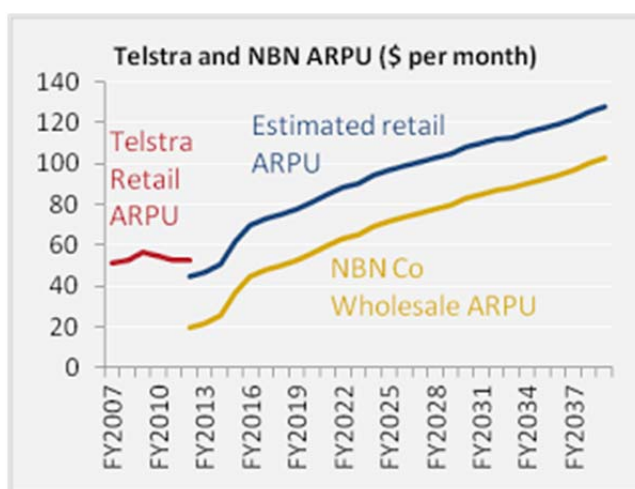
3. Analysts Question Whether Corporate Plan Revenues Achievable

- In August 2011 RBS analyst Ian Martin wrote in the *Telecommunications Journal of Australia*⁷ that NBN Co's corporate plan appeared risky if taken at face value. Risks to the Corporate Plan included cost blowouts building the NBN; and the danger NBN Co may not meet its take-up targets (exacerbated by a very low forecast of 'wireless-only' households in 10 years time).
- Other analysts have raised concerns that the NBN will not be able to reverse the global telecommunications trend of the past decade which has seen nominal revenues flatline despite huge increases in speeds and data offered to customers.
- For instance, in August 2007 TPG offered an 18GB cap at \$49.99. In 2013 it offers a 500GB cap at \$49.99. Users have enjoyed more and more data for the same price.
- NBN Co, in contrast, expects to lift monthly wholesale revenue from \$24 in FY2012 to \$63 in FY2021.⁸ Adjusted for inflation, revenue per user more than doubles in nine years.
- UK analyst Robert Kenny recently wrote: "They [NBN Co] expect consumers to be willing to pay substantially more to get higher speeds, with a result that the typical user increases their spend by about 70% over the next decade. While it is intuitive that consumers might pay more for higher speeds, as we have seen historically they haven't had to."⁹

⁷ Martin, I., (2011), "A Significant Gap in the NBN Corporate Plan", in the *Telecommunications Journal of Australia*, Vol 61, No 3.

⁸ NBN Co, (2012), "Corporate Plan, 2012-15", p.69

⁹ Kenny, R., (2012), "NBN Co's Bold Assumptions on Australians' Willingness to Pay", available online at: <http://commsthought.blogspot.co.uk/2012/11/nbn-cos-bold-assumptions-on->



- There are also questions about NBN Co's projected revenues vis a vis the likely future size of the entire Australian fixed line broadband and telephony market.
- Deutsche Bank analyst Vikas Gour¹⁰ in October 2012 released research implicitly suggesting NBN Co's actual revenues could be below estimates. He forecast four retail service providers (Telstra, Optus, TPG and iiNet) with 96 per cent of the market in FY2024 would pay \$3.8 billion to NBN Co in access fees that year.¹¹
- Yet the NBN Co 2012-2015 Corporate Plan projects revenues of \$6.2 billion in FY2021 and \$9.8 billion in FY2028.¹² This equates to \$7.9 billion in FY2024 if growth is assumed to be linear between NBN Co's two explicit estimates.
- Bluntly, NBN Co's internal estimate of the 2024 fixed line market, which relies on revenue per user increasing 9 per cent above the inflation rate each year over a period of more than a decade, is twice as large as that of a respected securities analyst whose work is subject to close financial market scrutiny.

[australians.html](#)

¹⁰ Deutsche, (2012), "Telecommunications: Leaders and Laggards in an NBN Environment", October 12.

¹¹ Ibid. p.15

¹² NBN Co, (2012), "Corporate Plan, 2012-15", p.72

- A JP Morgan report on Telstra¹³ projects in FY 2020 it will pay NBN Co \$1.7 billion for access and have a retail market share of 39 per cent. That implies access revenue for the whole market of \$4.4 billion. It compares to NBN Co's FY2020 revenue estimate of \$5.2 billion.
- The uncertain economic viability of the NBN is a large potential liability for future Governments. NBN Co Chairman Harrison Young has stated there is no legal requirement to provide taxpayers with a particular return on investment : "Our Shareholder hasn't given us a return hurdle. They've given us a task and asked us to keep them posted."¹⁴

Recommendations

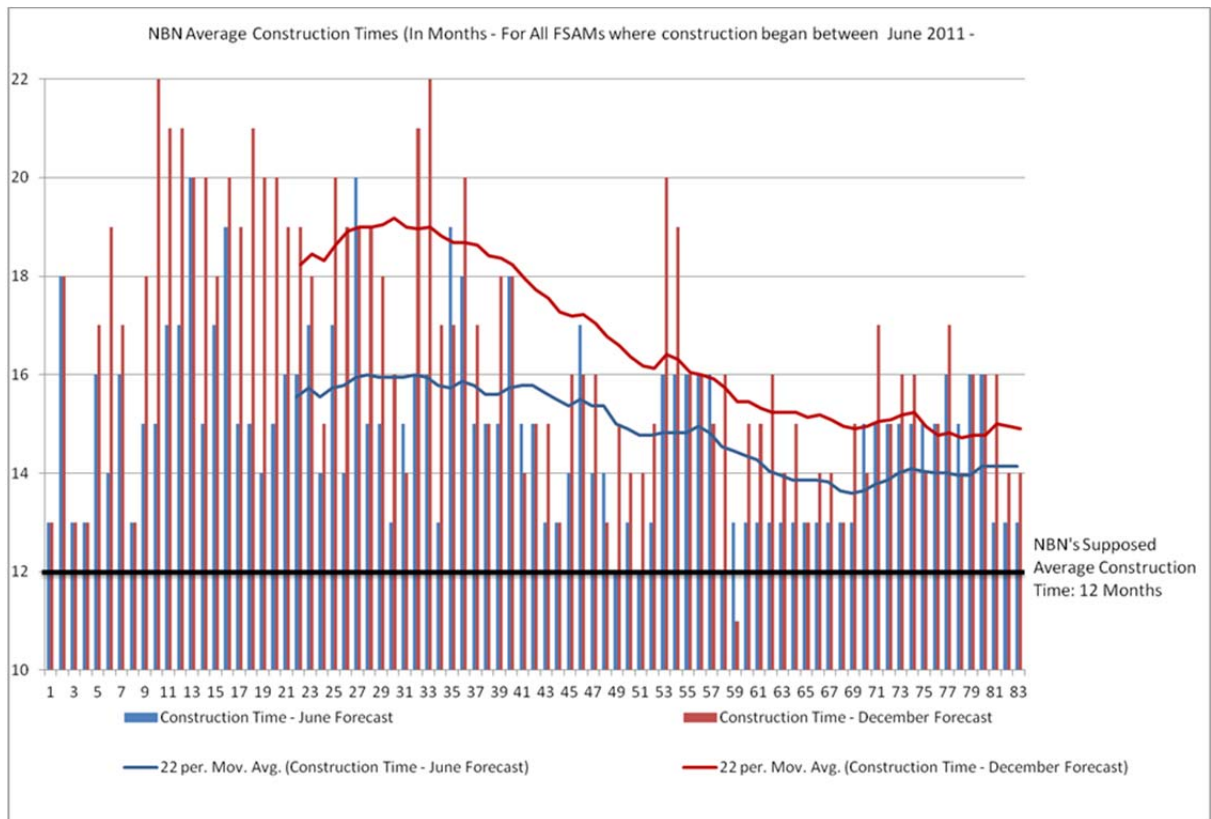
- That the NBN's modelling, analysis and detailed financial projections of its capital and operating costs, and of future end user prices and demand, be made public.

4. Rollout Delays - Problems With Contractor Syntheo

- In 83 FSAMs where construction of the fibre network began between June 2011 and March 2012, there have been extensive delays.
- The 'Monthly Ready for Service' rollout plans published on the NBN website showed that as of June, the estimated construction timeframe to completion was 14.8 months on those 83 FSAMs.
- By December, the average construction timeframe was 16.5 months with the vast majority FSAMs still to be activated.

¹³ JP Morgan, (2012), "Telstra Corporation," December 13.

¹⁴ Young, H., (2011), "The Governance of the NBN", available online at:
<http://www.nbnco.com.au/news-and-events/news/the-governance-of-nbn-co.html>



- At a recent estimates hearing, NBN Co CEO Mike Quigley also said that forecasts for June 30 have had to be revised down:

“You will also notice, if you look carefully there, that we have slightly lowered the number of premises forecast to be passed by the end of June 2013. In October we were forecasting just under 300,000 premises passed; we are now forecasting almost exactly the target of 286,000. The reason for the change is that one of our construction partners has significantly reduced its forecast since we presented back in the October time frame.”¹⁵

- Mr Quigley said that these revisions were due to the contractor for the Western Australia, South Australia and Northern Territory rollout, Syntheo. On 25 FSAMs that Syntheo began construction on between June 2011 and March 2012, not a single one is ready for service.
- Mr Quigley also said NBN Co has already paid its contractor Syntheo pre-payments, as is usual for large construction contracts, and has a

¹⁵ Environment and Communications Legislation Committee, (2013), “Estimates”, February 12, p.100

range of contractual protections against non-delivery but refused to elaborate on them:

“Senator BIRMINGHAM: What contingencies does NBN Co. have in place where contractors fail to meet their targets?

Mr Quigley: We have a range of the usual commercial conditions you would expect in such contracts if a contractor is in default.

Senator HEFFERNAN: Such as?

Mr Quigley: We apply, obviously, penalties. We are not going into details of the contracts.

Senator Conroy: This is a hypothetical question. The company are not in default.

Mr Quigley: No, they are not in default.

Senator HEFFERNAN: Do they get paid in arrears or –

CHAIR: Order, Senator Heffernan! You do not have the call.

Senator HEFFERNAN: I think it is a fair question to ask.

Senator Conroy: You are asking commercial-in-confidence questions.

Senator BIRMINGHAM: What is the nature of payments made to Syntheo? Are there up-front payments made?

Mr Quigley: Yes, there are up-front payments made for mobilisation for all of our construction contractors.

Senator BIRMINGHAM: Can you talk us through the different types of payments that are made?

Mr Quigley: The payments are phased relative to the different phases of the project. There is a design phase, then there is a build phase, and there are various phases in the build. The payments are obviously paid at the different phases, as they are completed.

Senator BIRMINGHAM: What payments have been made to Syntheo to date in relation to these 25 FSAMs?

Mr Quigley: I do not have that number with me. There have obviously been some payments made for the designs of each of those FSAMs and some mobilisation payments. I could not give

you the number off the top of my head. I would have to take that one on notice.”¹⁶

Recommendations

- The NBN Co and Government should urgently explore ways of speeding up deployment of super fast broadband.

5. NBN Struggling to Connect to Multi Dwelling Units

- In May 2011, the NBN Co put out a request for proposals for MDU cabling. The RFP stated the NBN was looking for companies to carry out “installing fibre cabling and equipment within common areas of existing MDUs using pre-supplied detailed designs and bills of material”¹⁷.
- As of October 2012, the NBN had still not signed contracts to connect MDUs. At a public hearing into the NBN, the NBN Co’s Chief Operating Officer Ralph Steffens said:

“**Mr Steffens:** We are in trials with a number of contractors. We are about to award the contracts for the MDUs.

Mr TURNBULL: Yes. Can you tell us who those contractors are?

Mr Steffens: No, because we have not concluded it. The number of MDUs passed I would need to take on notice.”¹⁸
- Mr Steffens also said that the NBN Co has a particular problem with mapping information when it comes to MDUs: “It varies dramatically, not only between the geography but also between the types of premises. Multi dwelling units are typically a lot more inaccurate than single-dwelling units. It is a significant percentage, but there is a huge variety between the geographies.”¹⁹
- The NBN noted in its 2012 corporate plan that the difficulty in connecting MDUs has led to increased capital costs: “NBN Co’s

¹⁶ Environment and Communications Legislation Committee, (2013), “Estimates”, February 12, p.109

¹⁷ <http://www.nbnco.com.au/working-for-us/tenders/a092-rfp-mdu-cabling-contractors.html>

¹⁸ Joint Committee on the NBN, (2012), “Public Hearing”, October 30, 2012, p.18

¹⁹ Joint Committee on the NBN, (2012), “Public Hearing”, October 30, 2012, p.4

experience in initial deployment sites has highlighted the challenges for connecting premises in MDUs and additional costs have therefore been embedded in the 2012-15 Corporate Plan.”²⁰

- The NBN stated in an answer to questions on notice that only a very small percentage of MDUs passed have been connected:

“As at 7 December 2012, more than one-third (35 per cent) of Brownfields residential MDUs passed by the NBN either had an active service or were able to order an active service. The definition of MDUs (refer page 93 of the NBN Co Corporate Plan 2012-15) ranges from duplex type premises to 200 plus unit apartment blocks. NBN is currently trialling different connection methods in MDUs nationally in First Release Sites. The learnings from these trials to date have led to some revisions in the scope of work to connect these premises in a more efficient and cost effective manner. Many require a bespoke solution different to single-dwelling units (SDUs) and this has resulted in some delays in servicing these premises. NBN Co is working with the industry to provide regular information to MDU owner's corporations and residents ahead of connections. NBN Co is currently in negotiations with a number of specialist contractors to supply project management, design and installation of fibre into these premises. Field work commencement is imminent.”²¹

- The NBN also stated: “As at 7 December 2012, there were 137 active connections in brownfields residential MDUs”.²²
- Two weeks later, the NBN Co issued a press release which claimed the network had connected an additional 100 MDUs in just two weeks: “So far NBN Co has rolled out the network to 237 residential MDUs across Australia, with work underway on a further 131.”²³
- On December 21, 2012, the NBN Co signed a contract with construction firm Downer EDI and Universal Communications Group Limited to service MDUs. The contracts were worth \$87 million in total and will

²⁰ NBN Co, (2012), “Corporate Plan, 2012-15”, p.14

²¹ NBN Co, (2013), “Answers to Questions on Notice, Public Hearing 30 October 2012”, Question 78

²² NBN Co, (2013), “Answers to Questions on Notice, Public Hearing 30 October 2012”, Question 79

²³ NBN Co, (2012), “NBN Co signs contracts to connect flats and units to the NBN”, available online at

<http://www.nbnco.com.au/news-and-events/news/nbn-co-signs-contracts-to-connect-flats-and-units.html>

cover 17,600 blocks of apartments across four states and territories over the next two years.²⁴

- The NBN has also created a national register for Multi Dwelling Unit strata managers to coordinate connections to the network²⁵.
- However, it is of concern that the NBN has still not signed contracts to connect MDUs in Western Australia, South Australia and the Northern Territory.
- It is also unclear whether the 17,600 blocks of apartments will cover the entire network build over the next two years. The NBN Co has forecast that it will pass 1.1m premises by the end of June 2014 in the fibre brownfields footprint and will pass 178,000 premises in the fibre greenfields footprint.
- The NBN implementation study found that MDUs account for 34 per cent of premises in Australia²⁶. There are 431,000 buildings with 2-5 premises, accounting for a total of 1.135m premises. There are 119,000 buildings with 5-25 premises, accounting for a total of 1.268m premises. And there are 20,000 buildings with 25 or more premises, accounting for a total of 1.211m premises.
- NBN Co's current contracts cover only 3 per cent of Multi Dwelling Unit buildings in Australia.

Recommendations

- The NBN is to publish a register of all MDUs already 'passed' by the network, but which are unable to connect to the network, to allow residents and body corporates to see when services will become available.
- If an MDU building cannot connect to the network, those figures should be excluded from the figures reported as 'premises passed'.

²⁴ NBN Co, (2012), "NBN Co signs contracts to connect flats and units to the NBN", available online at <http://www.nbnco.com.au/news-and-events/news/nbn-co-signs-contracts-to-connect-flats-and-units.html>

²⁵ NBN Co, (2013), "Helping to Connect Apartments to the NBN", available online at: <http://www.nbnco.com.au/blog/connecting-apartments-mdus-nbn.html>

²⁶ McKinsey, (2009), "NBN Implementation Study", p.79

- The NBN should immediately investigate international experience of connecting MDUs using existing internal wiring, including Fibre to the Basement.
- The Shareholder Minister's Statement of Expectations to the NBN Co should be amended so that the NBN Co is no longer expected to terminate the fibre at each individual premises. The NBN Co should be given scope to terminate the fibre at an appropriate distance from the end user's premises, as would still allow the delivery of very fast broadband.

6. NBN and DBCDE Spending Excessively on Advertising Without Measuring Effectiveness

- In May 2012 estimates, the NBN claimed its overall marketing spend for 2011-12 would be \$8.12 million.²⁷
- Yet in its annual report, the NBN listed 'Communication and marketing campaigns' as having cost \$11.226 million in 2011-12²⁸. This represents a 38 per cent blowout in what was reported to Estimates in May.
- Recent media reports revealed various Government departments have spent \$29 million on NBN-related advertising since 2010 and that the Department is planning a further \$20 million spend in 2012-13²⁹.
- The NBN has stated that its media expenditure is forecast to be approximately \$11.9 million for 2012-13³⁰.
- Given that the NBN is forecasting 78,500 net subscriber gains in 2012-13, this level of expenditure appears excessive. For each new customer, the NBN Co will spend more than \$150 on advertising and the DBCDE will spend more than \$250 on advertising.

²⁷ Estimates, May 24, pp.178-179

²⁸ NBN Co Annual Report, 2011-12, p.79

²⁹ Battersby, L., (2012), "Critics Attack Plan to Spend More on NBN Advertising", available online [here](#).

³⁰ NBN Co, (2013), "Answers to Questions on Notice, Public Hearing 30 October 2012", Question370

- It is also important to note that the NBN is not selling services direct to consumers. So the NBN's advertising is on top of the money spent by RSPs who ultimately form the relationship with individual customers.
- In addition, the NBN Co employs 52 staff in its media/communications division³¹. As at June 30, the NBN Co's entire staff headcount was 1,674³², so the proportion of media and communications staff is very high.
- By comparison, ACMA employs 15 media and communications staff members, the DBCDE employs 23 media and communications staff and the Department of Education, Employment and Workplace Relations employs 51 media and communications staff³³.
- It is also alarming that Senator Stephen Conroy continues to misrepresent the NBN Committee's unanimous support for the advertising campaign. In October Estimates Senator Conroy said: "The additional opex is also in part due to increased resources at NBN Co. for public information campaigns – something you personally supported in the joint parliamentary committee, as did Mr Turnbull. Let us not forget that that was your recommendation, and NBN Co. has done just that."³⁴
- In fact, nothing could be further from the truth. In the Third Progress Report on the NBN issued by the Joint Committee, Coalition members issued a dissenting report which included a recommendation stating: "The Government and NBN Co conduct a review of its advertising spending for effectiveness and measure this against uptake and other relevant metrics. Expenditure should be reduced unless it can be demonstrated as providing value for money. The NBN Co should refrain from advertising Stage One of the fibre rollout in suburbs and

³¹ NBN Co, (2013), "Answers to Questions on Notice, Public Hearing 30 October 2012", Question389

³² NBN Co, (2012), "Annual Report", p.24

³³ Berkovic, N., (2012), "PM's \$150m Spin Doctor Brigade", in *The Australian*, available online at: <http://www.theaustralian.com.au/media/pms-150m-spin-doctor-brigade/story-e6fmg996-1226448739077>

³⁴ Estimates, October 16, p.127

regional areas which have not been included in the Stage One schedule”³⁵.

- Announcing an additional \$15 million spend by the Government in 2012-13, the *Age* reported Joint Committee chairman Rob Oakeshott said the committee did not recommend more advertising and the upcoming campaign would have to be a "much better standard of advertising than we have seen to date" to justify the \$14.7 million price tag. He said the last NBN campaign was “bland, blancmange and shameless ... that in the eyes of many was a waste of money”³⁶.

Coalition Criticism of NBN Advertising Campaigns

- Promotional material was published in regions not included in stage one of the rollout, creating confusion over when the NBN will be available³⁷.
- Much of the material created a false impression that many services and applications that are of public benefit can only be delivered on a fibre-to-the-premise network³⁸.
- There was insufficient focus on pressing public interest issues, such as the decommissioning of the copper network and the lack of RSPs offering services over the NBN’s Uni-V ports.

Recommendations

- The NBN Co and the DBCDE need to measure the effectiveness of their overall advertising and marketing spending, to justify any ongoing increases.
- Both the NBN Co and the DBCDE should conduct research into public perceptions and understanding of key policy issues such as:
 - ⇒ The looming decommissioning of the copper network in areas where FSAMs are active.

³⁵ Dissenting Report by Coalition Members and Senators, available online [here](#), p.137.

³⁶ Battersby, L., (2012), “Critics Attack Plan to Spend More on NBN Advertising”, available online [here](#)

³⁷ See Dissenting Report by Coalition Members and Senators, available online [here](#), p.137.

³⁸ For instance, the ‘Connecting Australia’ newspaper published by the DBCDE. See Turnbull, M., (2012), “The NBN Supports Newspapers. As for the Public Interest...” available online [here](#).

- ⇒ Retail offerings for essential services, such as analogue medical device connections.
- ⇒ A home owners' responsibility in terms of replacing battery back-ups.
- If the research shows deficient community awareness of key public interest topics, the current spending on marketing and promotion of the NBN need to be redirected to address them.

7. NBN Looking to Sign Longer Contract Periods

- It was reported last October that the NBN is investigating extending the contract period for future contracts to fixed four year terms³⁹.
- In recent estimates the NBN refused to comment on current contract negotiations:

Mr Quigley: We are in the process of having discussions with all of our contractors. I cannot give you a date when they will be concluded or contracts signed. Obviously with all of our contracts we look to renewing them as they fall due.

Senator BIRMINGHAM: The initial contracts were on the basis of two year plus one plus one year?

Mr Quigley: With the construction contractors, yes.

Senator BIRMINGHAM: Is NBN Co. looking at a variance to that for the renewables?

Mr Quigley: We may. Until we finish the discussions I cannot give you an answer on that.

Senator BIRMINGHAM: Are reports that you are offering fixed four-year terms for contractors correct?

Mr Quigley: I will not comment on what we may or may not be offering with particular contractors.

Senator BIRMINGHAM: Why is NBN Co. looking at changing its contract periods?

³⁹ Durie, J., (2012), "Quigley Locks in Fast Track Deals", in *The Australian*, October 11, available online at: <http://www.theaustralian.com.au/business/opinion/quigley-locks-in-fast-track-deals/story-e6frg9io-1226493193077>

Mr Quigley: We only look at changing contract periods if we believe there is an advantage to NBN Co. to do so – in other words, we can get the build done with greater certainty and at a lower rate.

Senator BIRMINGHAM: When does NBN Co. need to resolve those contracts by?

Mr Quigley: I suspect we will want to have some of them that are falling due in the middle of this year done before then. We need to renew them before then.”⁴⁰

Recommendations

- The benefits of changing contract terms in the lead up to the September 14 election need to be clearly articulated by the NBN Co.
- The NBN Co and its board should be clearly mindful of a possibility of a change of Government and the need to alter contracts down the contract. The NBN Co and its board should ensure suitable flexibility is written into the terms of future contracts. If this is not possible, then the likely costs of changing and lengthening contract terms need to be weighed against perceived benefits.

8. Lack of Transparency and Accountability in Reporting to the Committee

Take-up Rates

- Take-up rates have a direct bearing on the rate of return for the NBN project, even when taking into account the fact that NBN Co will eventually be the national monopoly wholesale provider of fixed line broadband and voice services. Therefore, accurate and regular reporting of take-up rates is necessary for the Committee to understand the true state of the NBN rollout.
- To date, reporting of take-up rates by NBN Co has been unsatisfactory. NBN Co provided the following response to the Committee, after being

⁴⁰ Environment and Communications Legislation Committee, (2013), “Estimates”, February 12, p.120

asked in September 2012 to provide daily activation rates for the NBN fibre network:

“NBN Co has not done this calculation as it is not meaningful at this stage of the roll-out based on a number of factors impacting the calculation including the time taken to finalise the Definitive Agreements. With the Definitive Agreements now unconditional and NBN Co able to ramp up the rollout of the NBN fibre network, NBN Go's 2012-15 Corporate Plan is forecasting a daily run rate for FY2013 of up to 201 (pg 37 refers) for fibre premises connected.⁴¹

- NBN Co bills RSPs for each customer they connect to the NBN network, so it is extremely unlikely that NBN Co cannot provide accurate and timely figures for the number of customers connected to the network in a given period of time. Indeed, if it cannot provide such figures, the Committee is entitled to ask how the company is accurately billing RSPs.

Combining ISS and Wireless in Premises Passed/Covered Figures

- NBN Co has at times included premises passed by the NBN Interim Satellite Service (ISS) with premises passed by the wireless network when reporting to the Committee.⁴² Combining premises passed figures for the ISS and wireless networks does not allow the Committee to develop a clear picture of how the network rollout is progressing.

Inaccurate and Delayed Answers to Questions

- NBN Co has, on many occasions, failed to either answer questions accurately or to provide answers within the requested timeframe, or both. This failure to provide timely and accurate answers to questions severely hampers the Committee's ability to properly report to Parliament on the progress of the NBN project, as required by the Committee's Resolution of Appointment.
- By way of example, Mr Hartsuyker placed questions 19 and 20 on notice following the public hearing on 16 April 2012. The questions related to additional costs incurred by NBN Co to prepare the Bonnyrigg greenfields development in western Sydney for fibre

⁴¹ JCNBN Answers to Questions in Writing (17 September 2012), Question 7

⁴² JCNBN Answers to Questions in Writing (17 September 2012), Questions 1-5

installation. NBN Co provided answers in early June, which were not entirely accurate. The Committee sought clarification from NBN Co on 26 June 2012. The Minister responded on 10 August with new information, some of which contradicted the initial answers given by NBN Co. The Committee sought further clarification about the contradictory answers on 16 August, with a final response received by the Committee on 20 August 2012. The outcome of this series of events was that it took four months to obtain accurate answers to a small number of relatively straightforward questions.

- As a result of the example above, and other instances of inaccurate or delayed responses from NBN Co, it is difficult not to conclude that NBN Co and the Shareholder Ministers are at best seeking to avoid scrutiny of the NBN project, or at worst, systematically limiting the Committee's ability to carry out its functions effectively.

Recommendation

- NBN Co provide the JCNBN with a standard monthly progress report not more than ten days after the end of each month, setting out the number of premises passed in the previous month by the fibre network, the number of premises passed in the previous month by the wireless network, and the number of premises that were connected to the network on each of the fibre, wireless, and satellite networks, and at what speed tier.

Hon Malcolm Turnbull MP
Member for Wentworth

on behalf of the Coalition Members of the Joint Committee
on the National Broadband Network