

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 148

Topic: National Broadband (NBN) Greenfields Model

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Senator CORMANN asked:

Senator CORMANN: In an investigation into the NBN Co's greenfields model, the Productivity Commission's government competitive neutrality unit found:

To comply with competitive neutrality policy, NBN Co would need to adjust its pricing model by taking into account funding by the Australian Government for its community service obligations and would need to demonstrate that the adjusted pricing model is expected to achieve a commercial rate of return that reflects its risk profile.

Has Treasury taken a position on the NBN's pricing model, and a position on whether it should aim to achieve a commercial return in the interests of competitive neutrality?

Senator CAMERON: What a joke! There is no competition. There never has been.

CHAIR: Let us let—

Senator CORMANN: This is a very serious question.

Mr Murphy: Yes, I know it is a serious question. I could not talk in general terms about that. I would really have to look at that. In the last few months there has been no work on that space. But, one, it is the department of communications; two, this is a matter obviously of complexity and detail. I can take that on notice, but it would largely be a government decision, really.

Answer:

NBN pricing model

It is NBN Co's responsibility to establish a pricing model consistent with the Government's NBN policy objectives, including uniform national wholesale pricing, as well as its own commercial objectives.

Commercial rate of return in the context of competitive neutrality (CN)

CN principles were agreed by the Commonwealth, State and Territory governments in 1995 as part of the National Competition Policy. There is no overarching Commonwealth legislation mandating compliance with CN policy, rather, it is applied on a case-by-case basis.

As per the Australian Government Competitive Neutrality Guidelines for Managers (2004), NBN Co's shareholder Ministers are responsible for determining the appropriate application of competitive neutrality to NBN Co, taking into account the Government's policy objectives for the NBN.

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Moreover, it is the responsibility of the Government to determine an acceptable rate of return for government-owned business enterprises. In that regard, the Government has decided to accept a rate of return for the NBN that reflects its cost of funds.