

National Broadband Network Request For Proposals

Submission by the Communications, Electrical and Plumbing Union

March 2008

The Communications Electrical and Plumbing Union (CEPU) welcomes the Government's invitation to comment on the possible contents of a Request For Proposals (RFP) to build a national fibre-based broadband network.

In the absence of any draft terms of reference for the RFP, the scope of the invitation is wide. The time allowed for comment, however, is short. The CEPU will therefore confine itself to what it sees as being certain key matters that should be addressed by the RFP.

The former Coalition Government issued guidelines for proposals for the roll-out of metropolitan fibre networks in September last year. While Labor's broadband policy differs from that of the former government, most notably in its national scope and in the provision of Government funding, elements of those guidelines remain relevant to the current project. The CEPU does not believe they need to be completely recast. Rather our comments below indicate where we believe there needs to be a change of emphasis in the RFP or where, as in the case of skills formation, we believe the RFP provides an opportunity to address wider industry issues.

We note that an opportunity to comment on regulatory issues associated with the proposed Fibre-to-the-Node (FTTN) network will be provided when the RFP is issued. We will reserve our comments on such questions until that time. In our view, however, there are certain threshold regulatory issues which should form part of the RFP itself. We have identified these below.

An efficient national solution.

The CEPU commented last year on the Draft Guidelines for the Coalition's Expert Panel, established to assess proposals for metropolitan broadband roll-outs. In our view, the central weakness of the former Government's broadband policy was its implicit abandonment of any national programme in favour of a two tiered approach to roll-out, with fibre-based services confined to urban areas.

The CEPU congratulates the Labor Government on its commitment to a national broadband solution. We believe this provides the best basis for ensuring equitable communications outcomes for all Australians.

The CEPU considers, however, that both the structure of the proposed national broadband network and the regulatory settings that surround it will be crucial to ensuring the success of Labor's project.

Recent statements appear to indicate that the Government is willing to entertain the possibility of multiple network providers, including ones based solely in regional and rural areas, receiving funding support for infrastructure build. While the CEPU understands that the Government may not wish, at this stage, to close off such options, it would nevertheless warn against them.

In our view, the most efficient means of delivering nation-wide high speed broadband services is over an integrated national fibre platform, supplemented at the geographic margin by wireless. The economies of scope and scale that would characterise such a network will provide the basis for lower end-user prices than would a number of networks each serving smaller geographic areas.

The CEPU believes that along with obvious criteria such as geographic and demographic reach and service capabilities, economic efficiency should be a key criterion against which network proposals are assessed. This should be flagged in the RFP.

Uniform Pricing

The creation of a unitary national network will also facilitate the cross-subsidisation between metropolitan and rural/regional areas which will be necessary for the project's success. The pricing structures which will best meet both the social and commercial objectives of the project are matters which regulation will need to address. The CEPU would expect, however, that they would involve cross-subsidisation at both wholesale and retail levels.

The CEPU notes that the Government's announcement of 11th March refers to an expectation that the proposed network will offer wholesale access on a uniform i.e. geographically averaged basis. The union believes that this will be critical to the viability of the Government's project. It will provide necessary cross-subsidies to thin rural and regional markets and remove such opportunities for arbitrage as would undermine the commercial viability of the new network. The RFP should stipulate such a pricing structure.

The Union recognises that, at a retail level, customised service packages are increasingly replacing stand-alone service offerings and that this trend will increase as does the variety of services available over broadband networks. Nevertheless, the Union is concerned that regional and rural retail customers should have access to broadband services on terms no worse than those available to those who live in metropolitan Australia. The RFP should invite respondents to indicate what pricing structures they propose for retail services, particularly retail access, and how these will maximise the availability and take-up of services on a national basis.

Maximising fibre deployment.

The CEPU notes that while Labor's pre-election broadband policies focussed on the roll-out of a Fibre-to-the-Node network, some industry members have argued that this network architecture will quickly become obsolete and that Government should support Fibre-to-the-Premises (FTTP). The Government has indicated that it will consider FTTP proposals but will commit no further funding to enable such a roll-out.

The CEPU considers that the Government should seek to maximise the extension of fibre towards the premises on a national basis within the bounds set by available funding i.e. by both anticipated commercial returns and government investment. It does not consider, however, that these funds will be sufficient to enable a national FTTP roll-out in Australia at this time.

The RFP should therefore require responding companies to stipulate both the extent of fibre build they will undertake now and the upgrade pathway between their proposed network and possible future FTTP deployments.

Network capabilities.

The Government has stipulated that the proposed fibre network should offer national minimum speeds of at least 12Mbps, but a higher minimum rate may now reasonably be expected through VDSL technologies. On the other hand, theoretical rates may not be achieved universally especially where "last mile" copper is in poor condition. Respondents should therefore be asked to

- specify what nation-wide minimum speed their networks can support in practice
- indicate the extent to which these rates may be exceeded in specific areas.
- indicate the degree to which these speeds represent an improvement on current national capabilities and the implications of such improvement for service innovation and delivery.

The CEPU considers that respondents should also specify whether their proposed networks will support the standard service at the level of functionality currently required by regulation and, if not, whether they propose to offer this service by other means.

The implications of a national FTTN roll-out for the current Universal Service regime is a matter which may be addressed outside the RFP itself but the extent of any possible problems can only be assessed if the capabilities of proposed networks and the intentions of their operators are known.

Customer Access Network Investment.

The CEPU notes that the only two FTTN network proposals currently in the public domain both rely on the Telstra Customer Access Network (CAN) for delivery of broadband services to the home. The current condition of that network is a matter of ongoing concern for the CEPU and has recently been the subject of media reports

The union described the impacts on cost-cutting on the CAN at some length in its submission to the Senate inquiry into the Australian telecommunications network in 2002. In our view, many of the problems identified there remain. While an FTTN roll-out will replace some ageing copper and remove broadband blockers such as loading coils and pair-gain systems from the Telstra network, the quality of services which end-users receive will still depend on the state of the last 1.5ks of copper between the node and the customer premises.

The CEPU considers that the RFP should require respondents who intend to deliver services over the “last mile” of the Telstra CAN to specify what, if any, remediation work they intend to undertake in that section of the network.

Financing

The last few years have witnessed increased activity by private equity firms in the telecommunications industry. In the Union’s view, these activities, typically involving increased debt levels for the target company, have the potential to expose carriers to significant financial risks.

The CEPU recognises that the FTTN network project will inevitably involve commercial risks, given the uncertainties associated with demand for services. We would anticipate that these risks will be reflected in pricing structures. Nevertheless it is in the interests of the project that the risks associated with financing it be minimised, especially in light of current market conditions.

The CEPU considers that the RFP should require proponents to indicate:

- the risks associated with the financing of their proposals
- the degree to which their financing model would expose the Commonwealth to risk and
- what measures they propose to minimise these risks

Industry skill development.

The roll-out of the FTTN (or FTTP) network will be a labour intensive project compared, at least, to Telstra’s recent Next G network build. Yet even the latter involved the use of labour from outside Australia, ostensibly because of skill shortages within the local industry.

In the CEPU's view, the FTTN roll-out, which it is proposed occur over a five year period, represents an occasion for the industry to address such skill shortages by increased investment in training. Given its \$4.7 billion contribution to the project, the Government is in a position to exercise some leverage over the industry in this regard. For it to do so would be consistent with its aims of addressing the skills crisis in the Australian economy as a whole.

The CEPU considers that the RFP should require respondents to

- specify how they intend to meet the skills requirements involved in building, maintaining and operating the proposed FTTN network;
- identify any areas where they anticipate skill shortages in relation to any of these functions and
- outline what measures they intend to take to address such shortages

The CEPU believes that preference should be given to proposals which will help enlarge Australia's telecommunications skills base on a long-term basis.