



TUANZ Submission to the Ministry of Economic Development

Broadband Investment Fund

TUANZ welcomes the opportunity to provide a submission to the Ministry of Economic Development on the Broadband Investment Fund and applauds the government for making funding available to assist in high-speed broadband rollouts.

As an organisation, we favour the 'bottom up' approach taken in the Broadband Investment Fund and the willingness by government to invest in public-private partnerships to facilitate the building of this much-needed infrastructure.

While TUANZ is not an applicant, we have many previous applicants and potential applicants in our membership. In the following submission we have answered each of the questions presented on pages 12 and 13 of the Consultation Document, with references to individual criteria where appropriate.

We would like to highlight three areas of concern for TUANZ in this introduction:

Timing

The deployment of high-speed broadband networks is of critical importance to New Zealand's economic future and the pace of rolling out this infrastructure should not be set by the slowest participant, but rather by the fastest. Therefore, those applicants with a business case ready to advance should be encouraged to do so and we'd like to see flexibility in the timetable for considering applications ahead of this 12 month process.

Open Access

TUANZ considers that a robust definition of open access is a critical factor in ensuring that the Broadband Investment Fund facilitates the deployment of high-speed broadband in both urban and rural areas.

Given timing, environment, other competitive options and the desired outcome of encouraging innovation, uptake, increasing environmental sustainability and improving productivity, TUANZ is concerned that simply

mandating open access at every layer may not deliver on those outcomes and may have unfortunate and unexpected consequences. Equity of access may be more appropriate at this stage. Furthermore, this infrastructure will be funded as a long term investment.

Creating an environment where there is a high risk of negative return on investment will not deliver the desired outcome as it will not be attractive to private investors.

For these reasons, TUANZ is convening a working party to provide a robust definition of open access and will report its findings to the MED.

International best practice

We note with some disappointment that there appears to have been no research into international best practice for deploying publicly funded fibre-optic networks in the preparation of this consultation document.

Overseas examples from which New Zealand can acquire valuable knowledge include:

- Japan - 85 per cent of households have access to fibre connectivity.
- Sweden - a major fibre network has been deployed in rural areas.
- Amsterdam - a publicly funding city fibre network has connected 40,000 households.

We would urge the MED to undertake some investigation into these deployments to ensure that publicly funded fibre-optic networks in New Zealand don't in future face the same anti-competitive issues that access seekers to the copper network currently face with Telecom's cabinetisation plans.

Questions on Urban Criteria

1. Will the proposed timeframes provide Applicants with sufficient time to fully complete the application requirement?

We understand that the current timetable takes into account the local government's budgetary processes, but we note that there is effectively a full calendar year between when the Expressions of Interests open, and when the applicants learn whether or not their application has been successful.

As noted in the introduction, we suggest that consideration be given to those applicants who meet all the criteria and are able to proceed earlier.

2. Are there any amendments needed to the draft criteria to improve the outcome of the Urban Fund?

TUANZ has the following comments to make about specific criteria.

2.3 The decision-maker may determine that a part of an application that does not involved direct connection to End-Users (and therefore does not meet the definition of a Network in clause 2.1) is nevertheless eligible for funding if the decision-maker is satisfied that:

- a. The part of the application is for broadband capability that links the Network with another network or networks; and*
- b. The application demonstrates a particular need for investment in such capability.*

TUANZ supports the use of the Broadband Investment Fund to encourage the building of fibre backhaul capability as long as it fulfils the same open-access and inter-connection requirements as 'last mile' infrastructure. As discussed earlier in this report, TUANZ will convene a working party to determine a robust definition of open-access.

3.4 The application will demonstrate that the physical and logical design of the Network and any technologies used as part of the Network, will support the requirements in clauses 3.1, 3.2 and 3.3

TUANZ notes that if considering an extension to existing fibre networks (eg. Vector's fibre network on the North Shore (known as NEAL) or Telecom New Zealand's cabinetisation roll-out, it is necessary to consider how the open access requirements under this Broadband Investment Fund criteria will fit with the existing infrastructure not built under the same open-access model.

3.4 The application will demonstrate the Network Entity will facilitate interconnection services that enable Third Party Service Providers to be connected to the Network in a manner that supports the requirements in clauses 3.1, 3.2 and 3.3 and meets the requirements set out in Appendix 1: Interconnection Requirements.

TUANZ supports the Interconnection Requirements as set out in Appendix 1, page 23 of this document. As an organisation that represents end-users we would encourage an open peering regime that avoids unnecessary national and international transit of data. We believe that favourable consideration should be shown to those applicants that can demonstrate how their network will facilitate effective traffic management at the regional, national and international level and how this will have a direct result in reducing the data caps faced by the end user.

4.1 The application will demonstrate that the applicant has made all reasonable endeavours to provide, as a minimum, Passive Infrastructure to all relevant Key Public Users in the coverage area.

TUANZ considers the connection of Key Public Users (as defined in this document on page 21) to be essential for any infrastructure that is in part publicly funded.

5.1 The application will demonstrate that funding allocated from the Broadband Investment Fund will not account for more than 50 per cent of the total cost of the project.

TUANZ understands that the purpose of the Urban Fund is to hasten fibre-based deployments, and is fully supportive of the public/private model as outlined in this consultation document.

3. Should successful Applicants be prevented from offering Application Services across the supported broadband infrastructure?

In principle, TUANZ is in favour of separating ownership of infrastructure from those who would seek to run services over a fibre-optic network. However, there may be areas where the demand pool is so low that the barrier to entry might be prohibitive for service providers, but it should be possible to form a separate company that can then leverage that infrastructure.

4. The draft urban criteria include absolute criteria and weighted criteria. Are there any absolute criteria that you consider too onerous and should instead be classed as percentage weighted criteria?

TUANZ considers the absolute criteria as outlined in this document to be correct.

5. Do you agree with the weightings in the urban criteria?

TUANZ considers the percentage weighting as outlined in this document to be fair, however we note the following points:

6.1 b. satisfaction of a community demand that has not been met by existing commercial providers

TUANZ notes that proving 'unmet community demand' could be a difficult task for an applicant, considering that the potential of fibre networks is far from being fully realized.

We would also contend that in addition to Key Public Users, considerable weight should be given to how the fast deployment of the applicant's network will result in improved outcomes for the business community. As noted earlier in this submission, broadband is an economic enabler and therefore it's necessary to ensure that business users are connected at fair and reasonable rates.

7.2 f. the level of indicated aggregated demand, including commitments from current or potential broadband users in a given sector or geographical region.

TUANZ considers that serious consideration should be given to applications that can prove a commitment from anchor tenants. For example, this could take the form of other telecommunication companies wanting to lease fibre networks for use between cellsites, or large user organisations wanting to lease fibre networks between their premises around the country.

9.2a the likelihood of the Network Entity attaining a positive cash-flow within its first four years of operation.

While we note that this requirement is only part of a smaller percentage in the weightings (15 per cent), TUANZ does consider this to be a very short term ROI for what is effectively an inter-generational asset. It should instead be tied in with the depreciation of the asset and therefore be between 10-20 years (electronics and fibre).

A poor outcome for TUANZ would be a fibre network funded under this scheme which provided inexpensive connections to Key Public Users and expensive connections to business users (effectively making businesses subsidize the public users in order to ensure the applicant met the short-term ROI requirement of the Broadband Investment Fund).

6. What do you consider to be an appropriate level of applicant assistance?

TUANZ has observed first-hand the disparate level of skills and understanding that exists among territorial authorities. We therefore consider that some applicants may require funding (as was the case with the Broadband Challenge) to prepare their application. This should be determined at the EOI stage.

7. Does the proposed timing raise any issues for your planning processes?

TUANZ is not an applicant, but please refer to question 1 for TUANZ's submission on timing.

Questions on Rural Criteria

1. Do you agree with the proposed outcome of the Rural Fund?

TUANZ understands that the purpose of the Rural Fund is to provide funding for high-speed broadband infrastructure that would otherwise not be built. In this respect we welcome the Fund and note that the emphasis on supporting grassroots community initiatives is worthwhile.

However TUANZ believes that a funding pool of \$75 million should only be considered a start. We note on page 27 of this document that the MED appears to accept the Telecom NZ Zone 4 rural definition and that this encompasses 16% of the population. Given that New Zealand's economy is to a large extent driven by the rural communities we believe serious consideration should be given to increasing this amount – but not at the expense of the Urban Fund.

We also note that applicants applying from small communities are in general more likely to require more funding for expertise to put together the initial applications. TUANZ would consider a poor outcome of the Rural Fund to be the evaporation of the funding pool into bureaucratic processes and for communities to therefore be less ambitious in the technological solutions they adopt.

2. Do you consider that there should be a secondary outcome that relates to improving rural voice services?

TUANZ agrees that voice is a vital service and therefore favourable consideration should be given to those with plans to work with third parties to use network infrastructure to deliver voice.

3. Given the significant cost increases to deploy high-speed broadband in rural and remote areas and the better potential coverage that may be provided at a lower cost but also at lower speeds (including potentially by wireless rather than fibre) should the rural criteria be set at a lower speed than urban?

As noted above TUANZ considers that the provision of high-speed fibre networks to the primary sector is essential and therefore we consider that rural users should enjoy the same connectivity as urban dwellers.

However, we do concede that in the case of very remote users it may be necessary to consider a lower speed requirement. TUANZ notes that this group of users is yet to be defined in the current TSO review, but when it is decided we suggest that this become the definition of remote users.

4. Do you think that mobile/wireless solutions would provide the required level of broadband service?

See answers to questions 2 and 3 above.

5. Do you agree that rural applicants should be required to offer open access to their infrastructure, bearer and/or application services?

Yes, although as noted earlier, how open access is defined requires the input of full and open public discussion. This is why TUANZ is forming a working party to discuss what open access should mean.

6. The rural criteria do not specify percentage weightings but rather are ranked in order of priority. This has been proposed in order to retain a greater level of flexibility that is required in rural areas. Do you consider that percentage weightings should be specified at the expense of flexibility?

TUANZ believes a more 'holistic view' of the application for rural funding is appropriate - especially as the stated goal is to create high-speed broadband networks that might not otherwise have been built.

7. Consideration is being given to limiting interim seed funding for a rural project to a maximum of \$500,000, with a proviso that neighbouring communities would be permitted to apply for a greater funding amount where a combined solution leads to a lower overall cost per new broadband access connection. Do you agree with this approach?

We agree that interim seed funding will be necessary in some cases and support the encouragement given in this document to neighbouring rural areas combining to roll out broadband networks.

8. What do you consider to be an appropriate level of applicant assistance?

TUANZ considers that \$80,000 to \$100,000 is a realistic level of applicant assistance.

9. Will the proposed timeline provide applicants with sufficient time to fully complete the application requirements?

TUANZ believes there is ample time to complete the applications – see answer to question 1 in the Urban fund.

Ernie Newman
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