

Rural telecommunications plans finalised

The government has finalised its plans for rural telecommunications with Cabinet yesterday signing off on proposals for the roll out of high speed broadband in rural areas and the reform of the Telecommunications Service Obligations (TSO).

Communications and Information Technology Minister Steven Joyce says the plans will lead to a major step-change in rural broadband.

“As a result of this plan we are confirming today, 97% of rural households will have access to broadband services of at least 5Mbps; with the remainder reaching at least 1Mbps. For many remote and not-so-remote rural areas this will be light years ahead of where they are today.”

A big part of the plan will be connecting fibre directly to rural schools.

“Schools are one of the most concentrated areas of broadband demand,” says Mr Joyce.

“The government’s rural broadband initiative will help deliver fibre connections to 97% of schools across the country and 99.7% of students. The remaining most remote schools will achieve speeds of at least 10Mbps.

“These speeds will ensure every student has access to fast internet that will help prepare them for living and working in the 21st century world.”

Mr Joyce says that the only significant change to the rural broadband initiative was to up-weight the importance of the community connection objectives, relative to the schools part of the initiative.

“Some submitters were concerned that too much emphasis was being placed on school connectivity relative to the rest of the community. We have changed that in the final plan to be clear that while the schools will be the original catalyst to get fibre to the community; achieving at least 5Mbps across the communities is the primary aim of the exercise.”

The rural broadband initiative will be developed separately but alongside the government’s ultra-fast broadband initiative in urban areas.

“The two different approaches reflect the different population densities and therefore the different economics of providing telecommunications in urban and rural areas,” says Mr Joyce.

“Taken together, the two initiatives will deliver to New Zealanders modern telecommunications that will be the equal or better than anywhere in the world.”

The rural broadband initiative is expected to cost around \$300million, and it is being funded by a \$48 million direct government grant, plus \$252 million from a new Telecommunications Development Levy being set up as part of the accompanying TSO reforms, which were also confirmed by cabinet yesterday.

All the original TSO proposals have been agreed, including changes to the methodology for calculating compensation for Telecom’s delivery of local service.

“I want to stress that changes to the TSO levy would not affect the TSO obligation, which includes free local calls. The idea is not even on the table. Likewise, there are no plans to further loosen the rules around foreign ownership of Telecom,” says Mr Joyce.

The TSO reforms will introduce a Telecommunications Development Levy, which is expected to raise over the next six years:

- \$48 million for payments for delivery of TSO services and upgrades to the emergency calling services system.
- \$252 million for the Rural Broadband Initiative.

“The overall cost to the industry of this new levy is expected to be offset by the reduction in Local Service TSO charges resulting from the TSO reforms,” says Mr Joyce.

The government will undertake a two-phase Rural Broadband Initiative tender process. It expects to call for Expression of Interest during April and anticipates commencing allocating funding to successful bidders before the end of the year.

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Questions and answers

About the finalised Rural Broadband Initiative proposal

1. What will the Rural Broadband Initiative achieve?

The purpose of the Rural Broadband Initiative is to:

- enable 97 percent of New Zealand households and enterprises to access broadband services of 5Mbps or better, with the remaining three percent to achieve speeds of at least 1Mbps (“*the rural community objective*”) and
- connect 97 percent of schools to fibre, enabling speeds of at least 100Mbps, with the remaining three percent to achieve speeds of at least 10Mbps (“*the rural schools objective*”).

2. How will the Rural Broadband Initiative be funded?

The proposed funding of the initiative remains unchanged. As outlined in the original proposal, funding will total \$300 million, and will come from:

- \$48 million direct contribution from the government
- \$42 million per year for six years (\$252 million in total) from the new Telecommunications Development Levy.

This is expected to be sufficient to achieve the government's rural broadband objectives.

3. What is the relationship between the government's Rural Broadband Initiative and the urban Ultra-fast Broadband (UFB) Initiative? How will the two initiatives be coordinated?

Through the Rural Broadband Initiative the government is seeking to improve the broadband services available to the 25 percent of New Zealanders living outside the footprint of the UFB Initiative. The different approaches of the two initiatives reflect the differing population densities of these communities and the different economic dynamics of providing telecommunications services to them.

Initially the Rural Broadband Initiative will focus on the 16 percent of the population that live in areas described as Telecom Zone 4, because these are the areas that are outside the footprint of Telecom's Fibre-to-the-Node programme and are least likely to fall within the footprint of the UFB Initiative.

4. When will the first schools/communities be connected to improved broadband services?

This will ultimately be agreed with the successful bidder(s) through the tender process. It is expected that Rural Broadband Initiative-funded deployment of rural broadband infrastructure will begin in early 2011.

About the tender process for the Rural Broadband Initiative

5. What will be the process for tenders to the Rural Broadband Initiative?

The tender process will now be split into two stages, an Expression of Interest (EOI) stage and a Request for Proposals (RFP) stage, to allow the government to make more informed decisions when finalising the RFP and to provide bidders and the government with greater flexibility to take into account developments with the UFB Initiative.

6. What is the indicative timetable for the tender process?

Action	Timeframe
Call for EOIs	April
Receive EOIs	May
Release RFP	July/August

Receive proposals	August/September
Allocate funding to successful bidder(s)	October/November

7. How will the government determine the regional boundaries for the tender?

For the purposes of the tender, the country will be split into no more than 20. The regional boundaries will be based on groupings of Territorial Local Authorities (TLAs).

At the EOI stage of the tender, the government will provide a preliminary list of the regions. Bidders will be able to put forward compelling cases for alternatives to the government-defined regional boundaries, but will not be able to put forward proposals that would see the country divided into more than 20 regions. The regional boundaries will then be fixed at the RFP stage of the tender.

8. Will the government consider national and/or regional proposals and does it have a preference?

The government will consider proposals that cover single regions, groups of regions, or all regions nationally. The government does not have a preference for regional or national proposals.

9. Is the government expecting proposals from participants in the Ultra-Fast Broadband Initiative?

It is expected that participants in the UFB Initiative (that is, Local Fibre Companies) may be interested in bidding for Rural Broadband Initiative funding. To this end, the government will build in sufficient flexibility to the tender to enable potential Local Fibre Company partners to express an interest in the Rural Broadband Initiative ahead of final UFB Initiative decisions.

10. What minimum requirements will bidders have to meet?

Bidders will be required to meet a series of access, service and performance and technical standard minimum requirements that will promote a pro-competitive, future-proofed outcome for rural communities. These are discussed in more detail in the overview document available at www.med.govt.nz/rural-broadband.

The one overriding principle is that enduring open access must be ensured for any installed government-funded fibre infrastructure.

11. How will the government ensure its community objectives are met?

Community benefits will be given significant weighting in the assessment of proposals. In the evaluation of community benefits the following factors will be considered:

- the service speed, quality, scalability (i.e. ability to provide higher speed services over time or through equipment upgrades) and coverage
- the connection of rural businesses and key community sites (such as health centres, libraries and marae) to improved broadband services
- improvements in cellular coverage
- engagement by the bidder with local government, communities, businesses, iwi and other community groups (particularly the extent to which these parties will reduce the level of RBI grants required through, for example, guaranteeing demand, contributing funding or reducing costs).

12. How will fibre assist rural schools?

Fibre will enable much faster internet access for rural schools, allowing use of online assessment tools such as e-asTTle. It will also deliver better quality imaging and a more reliable connection, both of which are important for video conferencing. Video conferencing has the potential to increase substantially the range of courses rural schools can offer. Specialised support such as reading recovery and high demand resources such as Māori medium teachers can also be delivered to rural schools via video conferencing. Fibre will also allow rural schools to use services like off-site storage and back-up that require an ultra-fast connection.

13. How much will it cost schools to connect to fibre?

Cost for individual schools, and the overall funding model for broadband in schools is still being developed.

14. How does this relate to the School Network Upgrade Programme?

The government has a commitment to ensure all schools are ready for ultra-fast broadband uptake. Schools around the country are having their internal networks upgraded through the Ministry of Education's School Network Upgraded Project which is being progressively rolled out. Schools that are connected to fibre and have not yet had a network upgrade will be able to be part of this project to ensure their internal networks are robust.

15. The government has built in greater flexibility around the connection of rural health sites to fibre. What does this mean?

It was originally proposed that rural hospitals and health care provider sites of significance to rural communities that are within one kilometre of a rural school connected to fibre under the Rural Broadband Initiative would also be considered for connection to fibre. The government

has decided to remove the one kilometre condition as it could unreasonably rule out fibre connections to some health sites that could significantly benefit rural communities.

About the reform of the Local Service TSO

1. What TSO reforms has the Government confirmed?

The Government has decided to reform how TSO charges are arrived at to compensate Telecom for supplying local telephone service in commercially non-viable areas. The reforms will ensure that when compensation to Telecom for supplying local telephone service is calculated, the full benefits and costs of being the nationwide-supplier of the TSO services are taken into account.

It is anticipated that the benefits of being the nationwide supplier of the TSO will outweigh the costs for the foreseeable future and that consequently Telecom will not receive additional compensation under the Telecommunications Act 2001. If this situation changes and Telecom begins to make a national net loss on providing the national Local Service TSO, Telecom will be able to apply for compensation for this net loss under the Telecommunications Act.

The Government also intends to reform the levy arrangements for subsidising telecommunications with the introduction of a new consolidated industry levy that will collect funding to pay all TSO charges (including any TSO charges paid to Telecom) and enable contestable grants for the deployment of rural telecommunications infrastructure.

2. Will broadband requirements be included in the Local Service TSO?

It is not proposed that broadband service be included in Local Service TSO requirements. The government's policy for funding the rural broadband initiative is to allocate some subsidy funding from revenue collected by the new consolidated industry levy.

3. Does the Government support toll free local calling continuing to be a TSO requirement?

Yes. The government recognises the importance of the TSO as a mechanism to assure the affordability and availability of essential telecommunications services. The government is committed to the option of toll-free local calling as a feature of any TSO for local residential telephone service.

4. Will line rentals increase as a result of the Government's TSO reforms?

There will be no change to expected line rental prices as a result of the TSO reforms. Residential telephone line rental charge increases are currently capped in the TSO at the rate of the change in the Consumer Price Index and this won't change.

5. How much levy funding will be allocated to the Rural Broadband Initiative?

After deducting TSO charges and grants to improve the emergency call service system, the annual levy revenue would be available to be allocated as competitive grants to assist financing the deployment of rural telecommunications infrastructure.

If the levy is set at \$50 million for six years, it is expected that approximately \$42 million per annum (\$252 million total) would be available for the Rural Broadband Initiative.

6. When will the TSO reforms and the Telecommunications Development Levy apply from?

As the current TSO mechanisms of the Telecommunications Act 2001 apply compensation retrospectively, the Government considers that it is fair that the determination of net cost for the 2009/2010 TSO year be conducted under the existing regime. This ensures that compensation is in line with the expectations of TSO providers at the time expenditures were incurred.

For future TSO years the Government expects that any calculation of TSO costs would be conducted under the new methodology. Pending passage of empowering legislation, the Government expects to collect the initial payment of the Telecommunications Development Levy at the end of the 2010/2011 TSO year.