



**HD Additional item: Competition from TPG threatens to economically derail A\$40bn NBN project for Australia's Abbott government: Part 1**

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[Editorial comment: Update on Australia's NBN project] [The NBN Co organisation publishes quarterly accounts detailing its achievements and as of March 31st, when it published accounts for the third quarter of 2013/14, its achievements included:] [1. A cumulative life-to-date A\$4.9 **billion** spent on capex and A\$2.4 **billion** on opex.] [2. Completion of 113 of its 121 points of interconnect for the NBN's 'core' network and 80% of the transit network.] [3. The passing of 512,659 fixed line and fixed wireless premises, an increase of nearly 96,000 over the previous quarter, for an average run rate over the quarter of 6,000 combined brownfield and greenfield premises per week and around 1,000 fixed wireless premises per week.] [4. Cumulative implementation of 166,642 premises with an active NBN service at the end of March, including 35,428 premises signed up during the quarter, with a total of 111,035 fibre customers (brown and Greenfield), including 31,154, signed up during the quarter.] [5.

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Construction during the third quarter of a satellite ground station at Roma and a telemetry, tracking and control centre at Alice Springs.] [As far as the fixed wireless program is concerned, the **company** reached 860 sites in total, including 92 sites acquired during the quarter, with 316 sites integrated to date (46 during the quarter), and 200 basestations built and were ready to be activated.] [Background] [On December 12, 2013 a 132 page strategic review, ordered by the incoming coalition government, of the cost and status and re-planning of the giant NBN project had concluded that even though the nominal cost of the project had been scaled down in pre-election proposals by the then opposition right-wing coalition to A\$29.5 **billion**, a realistic costing for the NBN was now believed to be \$11.5 **billion** more, i.e. A\$41 **billion**. The review also concluded that the target dates for implementation would not be met and in fact would now be three years later than the coalition's pre-election promises.] [Latest NBN Co weekly report] [For the week ending May 18th, NBN Co reported that a total of 7,050 additional lots/premises were passed/covered by the network during the week, of which 3,522 were in brownfield and 1,696 in greenfield areas. It also said fixed wireless coverage increased by 1,832 premises during the week. Overall an additional 3,681 premises had services activated on the network, including 3,255 on fixed line services and 426 using satellite and fixed wireless technologies.] [Despite NBN Co having spent A\$7.3 **billion** to the end of the last quarter, or over 18% of a notional A\$41 **billion** budgeted for the whole project, only around 6.5% of Australia's 8.18 **million** homes seem to have been passed and only around 2% have signed up for the service. Counting industrial premises as well those figures would be even lower.] [To a large extent this is inevitable - plans had to be drawn up, a huge amount of political and commercial negotiation had to take place (culminating in the Telstra A\$11 **million** deal, which now has to be renegotiated due to a shift of policy by the new Tony Abbott-led administration which took office in September 2013), thousands of operational people have had to be trained and core infrastructure had to be laid down before significant marketing could take place and retail signings for the high speed broadband services achieve any momentum.] [Nonetheless, it may be difficult to persuade some Australian citizens of that, particularly the very substantial number of those wedded to the idea that in a region where most South Koreans, Japanese and inhabitants of **Hong Kong** already enjoy the benefits of full FTTH network, ordinary Australians are entitled to the best possible solution. However, with Australia's very short parliamentary term this project was always going to be a political football.] [The operational situation] [Implementation of the NBN in Tasmania and the mainland has been distributed between around ten major and many smaller infrastructure installers, including companies such as Service Stream, Visionstream, Aurora **Energy** (Tasmania), John Holland, BSA, Transfield Services. Lend Lease, Downer EDI, and Universal Communications Group. In what is a completely new situation for most of these, there have been and continue to be problems, particularly since on top of the core difficulty of connecting up the sixth largest country in the world (which also ranks a lowly 235th out of 241 for population density) they

have had to meet tougher and tougher targets whilst moving away from the simplicity of pure FTTH for most locations to a mixed-technology approach that is supposed to save money. However, that is yet to be proven and revised budgets are already being exceeded.] [Service Stream signs contract extension] [Meanwhile, on May 19th Service Stream of Melbourne, an A\$81 million capitalised, 3,000-employee ASX quoted supplier of network services covering access, design, build, installation and maintenance for fixed communications, mobile communications, and energy and water systems and currently led by MD Terry Sinclair, announced that it had signed a contract extension worth a potential A\$140 million. Of the total A\$140 million, A\$70 million is for the first two years of the contract, with a further \$70 million arising from two one-year extension options. The contract involves the design and build of the NBN in new greenfield housing estates in New South Wales, Western Australia, South Australia and the Northern Territory, and the company can also tender for work in other regions outside those states.] [On May 21st the Northern Territory News reported that NBN Co and Service Stream were in negotiations for Service Stream to increase its subcontracted workers by 60% from 50 to 80 individuals. NT News also noted that the Territory (with a population of 239,000, 1.0% of the national total) remained the slowest rollout area around the country, as well as showing some of the poorest take-up by homes and businesses. It also quoted Australia's Financial Review as saying that more than 55% of Canberrans and 35% of NSW premises take on a service, but just 6.5% of Northern Territorians had so far signed up for high-speed broadband.] [Visionstream gets extension, but Tasmania to have FTTN] [Also on May 19th Leighton's construction company Visionstream announced it would continue rolling out fibre to new houses across Victoria, Queensland and Tasmania in a two-year contract extension worth A\$90 million. The company was originally paid A\$102 million to undertake greenfield fibre design and construction work in Victoria and Queensland in 2012 and is responsible for overall fibre network construction in Tasmania.] [Under the new deal Visionstream continue the design and construction of FTTP in new estates, as well as the commissioning of pit and pipe infrastructure and the establishment of temporary transit fibre networks to those new estates. (NB: Visionstream has faced criticism from the Coalition government over its handling of the NBN rollout in Tasmania, with the company seeking additional funding to complete the rollout of fibre to 190,000 premises in that state, and the request means NBN Co is likely to switch the rollout in the state to FTTN.)] [NBN designer Ferris downgraded to advisory position] [On April 22nd a number of Australian technical sources reported that Peter Ferris, executive GM of planning and design at NBN Co and responsible for the overall network design of the emerging NBN (including NBN Co's original FTTP rollout as envisioned by Kevin Rudd's Labor government back in 2009), had been stripped of his responsibilities. During an organisational review, Ferris was moved into an advisory position supporting newly-appointed NBN Co COO Greg Adcock. The general view is that this was a purely political decision as Ferris was widely regarded as highly competent.] [First FTTN node implemented on NSW Central Coast] [Although the incoming coalition government had made the political decision that NBN Co should adopt a cheaper broadband implementation policy based on a broader mix of technologies that made better use of existing copper, NBN Co initially focused on FTTP and had little experience of such technologies. In particular it had little experience of mass implementation and the use of an existing copper network which many people had previously claimed as reaching the end of its useful life.] [On April 21st NBN Co announced that a trial at Umina Beach on the Woy Woy Peninsula in New South Wales that had involved the installation of a VDSL modem in a shop front connected to the existing copper telephone line and a Telstra node in the street 100 metres away had delivered raw download speeds of 105 Mbit/s and upload speeds of 45 Mbit/s.] [While NBN Co CEO Bill Morrow said the results demonstrated the viability of using copper to deliver high-speed broadband in Australia, COO Greg Adcock was more cautious and merely described the results as encouraging. Moreover, an Australian newspaper report noted that the speeds achieved in this trial represented the straight down speed taken off a quick test and there would be substantial traffic class management overhead implemented before it got to retail service providers.] [(Editorial note: this Foreword should be read as an update to the three-part series published in February 2014.)]

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