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HD **TELSTRA WINS IN NEW DEAL**

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The agreement will also give the NBN more flexibility

The federal government has granted the NBN more flexibility in a revised Telstra-NBN deal to be launched on Sunday.

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Communications Minister Malcolm Turnbull is due to preside over a ceremonial signing of a new deal under which the NBN will formally take control of the Telstra**copper** network and the Optus and Telstra HFC networks.

All going to plan NBN chief Bill Morrow, Optus boss Allen Lew and Telstra's David Thodey are expected to be at the event in Sydney with Turnbull.

The deal timing was first reported in The Australian on Tuesday. The key elements of the revised deal being the government will not pay out any more than the exorbitant sums on offer and will pick up control of the network which in turn will enable a faster rollout of the service.

The deals will be done at the same prices as the previous deal but Telstra will pick up more money as an official contractor to the NBN as part of the agreement — which is yet to be finalised.

The Optus deal is worth $800 **million** in net present value terms and Telstra's deal is worth $11.2 **billion**, which translates over three decades to be worth more than $98bn to the **company**.

The revised agreement is subject to formal approval by the ACCC. Turnbull yesterday formally released his responses to the Vertigan review, which provides the NBN with more flexibility within an overall mandate to be the fixed line provider of last resort. Turnbull has also instructed NBN's Morrow to proceed with plans to split the **company** into different operating divisions.

Morrow — the former Vodafone boss — has already created a separate HFC unit under technology boss Dennis Steiger and must now proceed to create separate units for its mobile, fixed line and cable units under plans recommended by Vertigan to fast-forward competition in the industry.

The present plan is to roll out the service to 8 **million** homes by 2020 and by that stage the **company** would have exhausted the $29.5bn in **equity** funding on offer from the federal government.

The original plan was to then fund the service with debt because hopefully by that stage it will be generating real revenues from its wholesale service to fund a debt issue. But the vertical plan also involved it selling services like satellite to outside operators who would then establish competition in the sector.

Eventually the NBN would be split into its component parts which would in theory then be open to competition.

By way of example, the HFC networks are mainly sought by the NBN for their hybrid fibre coaxial cables which join the fibre to the homes. Under the revised plan NBN will grab the cables but Telstra will also continue to pump Foxtel down the lines and both Optus and Telstra will use the lines as backhaul for their mobile services.

Turnbull yesterday also raised the prospect of changing the regulatory structure of the industry to change the metrics from infrastructure access to consider market power.

Telstra now has over 50 per cent of the mobile network, and pending transfer to the NBN, 100 per cent of the fixed line network. All up Telstra is the industry behemoth with $98bn in taxpayer funds coming in the door.

The more immediate impact of the changes to be unveiled will be to acknowledge the presence of competition with players such as TPG and others looking to cherrypicking parts of the network. This behaviour will not be stopped directly but any network holder will be subject to the same obligation to provide open wholesale access and will also be charged a levy to help compensate the network build.

The intent of the changes then is to acknowledge you can't stop competition while wanting to ensure it happens on the same playing field. This is being done, albeit in an admittedly convoluted way which acknowledges the flaws of the NBN rollout.

NBN services will be capped so prices can't rise but it will have the power to cut prices to match competition. Subject to levy payments, rivals can also compete for greenfield building sites which means the NBN is not obligated to provide the service for nothing.

The plan supports the basic structural separation which lies at the heart of former Minister Stephen Conroy's plans for the network.

That means new high-speed networks will be vertically separated so the underlying network must be operated at arm's length from the services sold over it.

Just to underline Turnbull's point Telstra's Thodey yesterday told an American Chamber of Commerce in Australia luncheon in Melbourne the **company** will have rolled out 4G wireless services to 90 per cent of the country by January and 94 per cent by June next year which is faster-than-expected.

Knox under the gun FOUR Santos directors led by chair Ken Borda yesterday collectively acquired about 50,000 shares in the **company**, which is further evidence that the **oil** and gad producer has no plans to raise **equity**.

Santos effectively ruled out an **equity** raising in a statement earlier but the market obviously ignored the words with its shares finishing at a decade low of $7. Over five times normal volume traded with 21.9 **million** shares changing hands.

Santos's market value has now fallen below $7bn after being worth $12.5bn on November 24.

If Santos boss David Knox hoped to allay concerns with plans to cut spending and asset sales he clearly failed because the market has moved too far for that.

The **energy company** said it took $700m from its $2.7bn capital expenditure plans, and talked up asset sales. Granted the market has gone too far but the best response now for Knox is to detail the cuts and show the market he means business.

Some $5.5bn in value has been taken from Santos in just three weeks in the wake of the 40 per cent fall in **oil** prices.

Oil prices set gas prices, and with **China** and Europe slowing the market is worried there is an excess supply of **oil**.

Santos has $2bn in easy-to-sell assets in PNG and adjoining areas and the **company** says it has $2bn in cash and debt facilities.

The market had almost willed Santos into raising **equity**. But after Knox's statement yesterday it would be difficult to raise **equity** because that would be seen to be a sign of desperation.

The Santos chair is Ken Borda who used to run Deutsche Bank in Australia so he knows the ways of the market better than most.

Borda and Knox may be rewarded for hanging tough, but right now they remain under the gun and will remain so until sentiment changes or, more importantly, they take matters into their own hands and detail their changes.

Grocery code put off SMALL BUSINESS Minister Bruce Billson has delayed the official launch of the Grocery Industry Code until the New Year to give all the retailer participants time to sign off.The big hope for the minister is that IGA and Aldi will sign the code, joining the founding parties Coles and Woolworths.

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