

s47C, s47E(d)

Copies to:
Secretary
Ms Huxtable
Mr Edge
Mr Renwick
Mr Gibson

NBN Co Limited – Business Plan – Request for long-term financial forecasts and updated estimates for a FTTP scenario

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NBN Co provided Shareholder Departments with a draft Business Plan on 27 March 2015. s47C, s47E(d)

2. In relation to the long-term financial forecasts, the company has provided projections up to 25 years into the future. s47C, s47E(d)

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the Board is

reluctant to endorse these projections beyond FY2022. s47C, s47E(d)

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While financial forecasts of this length are subject to significant uncertainty, particularly given the dynamic nature of the telecommunications market, this information is needed for our consideration of the Budget accounting treatment for NBN Co.


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the letter to NBN Co requests that the Board endorse its best estimate of long-term financial forecasts and provide this information to Shareholder Ministers as part of Business Plan. Given the importance this information has for finalising the current review of the

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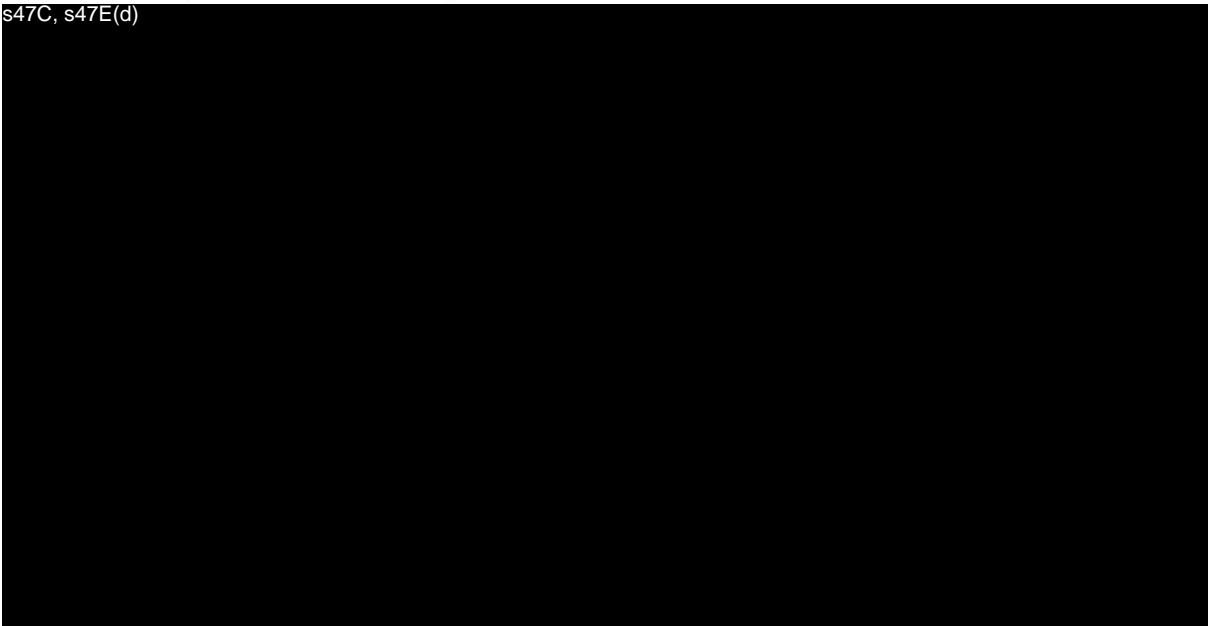
Business Plan being undertaken by Shareholder Departments, the letter requests NBN Co to provide this information by 30 April 2015.

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6. Since the Strategic Review was completed in December 2013, NBN Co has gained additional rollout and cost experience. Accordingly, we would expect that an updated FTTP scenario (referred to as 'Scenario 1.5' in the draft letter), reflecting the experience gained over this period, may provide a useful comparison for key financial and operational metrics set out in the MTM Business Plan. While an updated scenario would not replicate the rigor of the Business Plan, it should include key items such as peak funding and IRR, consistent with the presentation of different scenarios in the Strategic Review.

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9. NBN Co's previous Corporate Plans and the Strategic Review have all included financial forecasts to FY2040

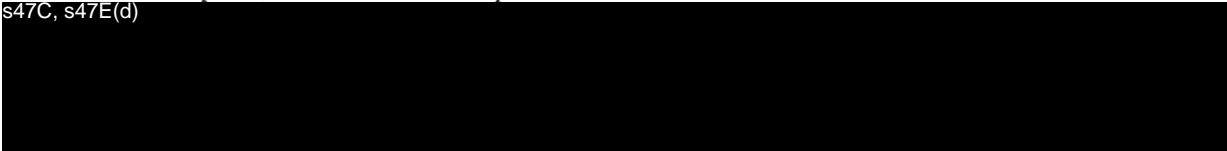
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10. The Strategic Review was completed in December 2013 and included six scenarios of which two were specifically focussed on an FTTP rollout as follows:

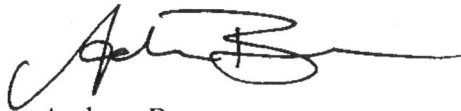
- (a) Scenario 1 - a 'revised outlook' for the FTTP NBN assuming minimal policy change from the previous Government's NBN policy; and
- (b) Scenario 2 - a 'radically redesigned' FTTP rollout where major architectural and business changes drove significant cost savings. In this Scenario 2, it was assumed that NBN Co would continue to roll out fibre to all premises within the fixed line footprint and make radical changes to improve its productivity, architecture, materials and construction techniques to increase rollout speed and decrease costs.

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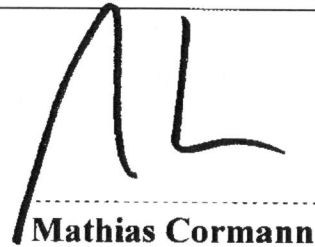
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Andrew Bourne
A/g Assistant Secretary
NBN and Moorebank Shareholder Branch
Business, Procurement and Asset Management
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PDR Number	MS15-000699


Mathias Cormann

26/4/15

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THE HON MALCOLM TURNBULL MP
Minister for Communications

SENATOR THE HON MATHIAS CORMANN
Minister for Finance

Dr Ziggy Switkowski
Chairman
NBN Co Limited
Level 40, 360 Elizabeth Street
MELBOURNE VIC 3000

28 APR 2015

COPY

Dear Dr Switkowski 

We thank the Board and the company for their work to date on the draft Business Plan. While the Business Plan is not yet complete, it provides a strong foundation for what we expect will be the most rigorous, detailed and realistically executable business plan so far provided for the National Broadband Network (NBN).

This letter addresses two matters that have arisen where the company has sought guidance. The first concerns **long-term financial forecasts for NBN Co**, where the company has prepared projections extending to 2040, in line with those contained in previous Corporate Plans, but the Board is reluctant to endorse these projections.

We understand forecasts of this length in a market as dynamic as telecommunications may well lack accuracy. Nevertheless, NBN Co's previous Corporate Plans provided the information necessary for the Government to estimate a return on its investment in the NBN and calculate an internal rate of return (IRR). We receive similar forecasts for other long-term projects undertaken by the Government.

With this in mind, we ask the Board to endorse its best estimate of the Company's long-term financial performance out to 2040, and provide these projections to us as part of the Business Plan. We acknowledge that for the period beyond the last year for which the Company provides a detailed financial forecast, such projections are inherently uncertain, and we expect that they will be qualified to reflect this. However, such projections are needed for Shareholder Departments to update financial forecasts that inform the Commonwealth's budget accounting treatment of NBN Co.

Given the importance this information has in finalising the review of the Business Plan being undertaken by our departments, we ask that you provide a Board endorsed version of these projections to us by Thursday, 30 April 2015.

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A second issue that has arisen during work on the Business Plan is whether to include an **updated cost estimate for a broad based fibre to the premises rollout (or FTTP)**, and if so how such an estimate should be developed.

Shareholder Ministers believe an updated cost estimate for a network where FTTP serves the entire fixed line footprint is a critical data point that needs to be credibly costed. The FTTP NBN is an important counterfactual to the Multi Technology Mix (MTM) rollout recommended by NBN Co management in the Strategic Review to the Government in December 2013 and currently being deployed.

The Strategic Review offered two FTTP cost estimates – Scenario 1, a ‘revised outlook’ for FTTP assuming minimal policy change and Scenario 2, a ‘radically redesigned’ FTTP rollout where major architectural and business changes drove significant cost savings. There are questions over the achievability of costs modelled in Scenario 2, given experience over the past 18 months of:

- actual rollout productivity gains achieved and accruing to NBN Co rather than to construction delivery partners;
- actual architectural and commercial rollout changes approved and implemented; and
- actual FTTP costs per premise over the past 18 months (and the rollout to date).

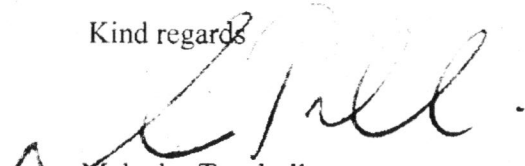
While it is up to the company to determine the basis for its estimate of an FTTP rollout, it may be that a ‘Scenario 1.5’ approach aligns most closely with reality.

Like the MTM long-term financial forecasts, the updated FTTP scenario estimate should take account of additional data, experience and market knowledge accumulated by NBN Co since the Strategic Review was prepared in December 2013 – particularly in areas such as historical and current costs per premise, the ability and distribution of productivity gains in an outsourced delivery model, competitive threats from alternative networks and technologies, achievable peak construction rates, and cumulative operating costs likely to be incurred over the build.

While any updated cost estimate for an FTTP rollout scenario is not expected to replicate the rigor of NBN Co’s Business Plan for the MTM rollout, it should be sufficiently robust and detailed that the company is prepared to stand behind its credibility and comparison of FTTP and MTM costs. Accordingly, we ask that the updated FTTP scenario provide each of the high-level metrics in Table 0-2 on page 17 of the Strategic Review. This updated scenario should be included in the Board endorsed draft 2015-18 Corporate Plan that is due to us by 31 May 2015.

We again thank everyone at NBN Co for the obvious effort put into the Business Plan so far, and look forward to continuing to work with the company to complete this important task.

Kind regards



Malcolm Turnbull
Minister for Communications



Mathias Cormann
Minister for Finance

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