



Australian Government

**Department of Communications,
Information Technology and the Arts**

METROPOLITAN BROADBAND BLACKSPOTS PROGRAM

DISCUSSION PAPER

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EXECUTIVE SUMMARY

Purpose

The Australian Government's National Broadband Strategy (NBS) recognises the important role broadband services play in enabling major improvements in economic and social wellbeing for Australians. Widespread access to high-speed communication services can deliver significant increases in productivity, expand employment, increase international competitiveness and improve quality of life.

While the NBS acknowledges the market is the primary means for the delivery of broadband services, it identifies an important role for government to take action where the market will not provide broadband services at fair and reasonable prices within an acceptable timeframe. The Metropolitan Broadband Blackspots Program (MBBP) is the Australian Government's initiative to assist customers in metropolitan areas gain access to equitably priced broadband services.

This Discussion Paper outlines the Department of Communications, Information Technology and the Arts' (the Department) proposed framework and processes for the implementation and delivery of the MBBP. In addition to meeting the primary objective of providing broadband services at equitable prices to customers in metropolitan areas, there are two other key considerations central to the design of the program. These are to minimise the potential for the MBBP to distort the competitiveness of metropolitan broadband markets, and to effectively target the available funds.

Differences between the MBBP and HiBIS

It is proposed that many of the key features of the MBBP will mirror arrangements currently in place under the Australian Government's Higher Bandwidth Incentive Scheme (HiBIS). However, some elements of the MBBP may differ from the HiBIS approach, to reflect differences between metropolitan and regional/rural broadband markets. These elements include:

- the period of time over which service providers are able to claim incentive payments for the supply of MBBP services to upgraded areas;
- arrangements to take into account service providers' commercial plans to extend their network;
- arrangements relating to the sharing of incentive payments between wholesale and retail service providers; and
- arrangements to assist customers requiring a high cost solution.

Similarities between MBBP and HiBIS

Like HiBIS, the MBBP will seek the participation of commercial service providers to achieve its objectives. Other important proposed similarities with HiBIS include:

- financial assistance to be made available to registered service providers through a per customer subsidy;
- participation in the program to be open to all Internet service providers;

- services offered under the program to be offered at a specified ‘threshold’ quality of service and at or below a maximum specified price – the threshold service to be based on what is generally available to most metropolitan premises;
- value-added services (increased performance and/or functionality) could also be registered and offered at a higher price than the threshold limit;
- the technology platform used to deliver services to be at the discretion of registered service providers;
- administrative measures to be in place to limit the extent to which a single service provider could benefit financially from the program;
- the arrangements for customers serviced through the MBBP to mirror, as closely as possible, the normal commercial arrangements that are in place for customers to obtain a service; and
- tools, including a demand register and maps, to be provided to assist both consumers and registered service providers to establish eligibility and effectively participate in the program.

Proposed Key Elements of the Program

Overall coverage

The program will cover the areas that are not covered by HiBIS, that is, areas within the Metropolitan Exclusion Area (MEA). The MEA includes each state and territory capital city and the adjacent regional centres of Wollongong, the Central Coast of New South Wales, Newcastle, Geelong, Palmerston and the Gold Coast, including Tweed Heads.

Eligible customers

It is proposed that eligible customers will be those residential customers, small businesses, small not-for-profit organisations and other not-for-profit organisations that provide a public access service that are unable to obtain a MBBP threshold service equivalent at the beginning of each period of the program. The definition of eligible customers would be identical to the HiBIS approach.

Level of standard incentive payment

The Department is yet to determine the level/s of the payment that would be made available to registered service providers. The Department’s initial view is that, given the higher teledensity and lower costs associated with operating and maintaining telecommunications infrastructure in metropolitan areas, a lower standard incentive payment than the Standard Incentive Payment available under HiBIS is likely to be appropriate.

High cost incentive payment

It is proposed that if customers cannot be provided with a MBBP service by any registered provider using the Standard Incentive Payment, they would be invited to register their interest on the MBBP demand register (if they had not already done so). If

they were still not able to obtain a service by the end of a designated period (eg six months from the date of registering on the demand register) then they would be deemed eligible to receive a high cost solution. Providers would be able to register high cost service solutions and receive a high-cost incentive payment for supplying customers with such a service.

Period within which claims for incentives payments can be made in a particular area

It is proposed that the period of time over which service providers would be able to claim incentive payments for the supply of MBBP services to customers in upgraded areas would be limited, to 18 months for the first period of the program and 12 months for the second period. This proposed approach reflects both the generally greater commercial viability of service provision in metropolitan areas, and the rapidly growing demand for broadband services.

Taking commercial investment into account

There will continue to be a business case for service providers to invest in new broadband networks, or to upgrade their current networks, independent of financial assistance being provided by the Australian Government. It is considered appropriate under the MBBP to take into account the provision of services that would have been provided on a commercial basis, independent of the program. It is therefore proposed that, in assessing the level of financial support necessary to assist providers to upgrade their broadband networks, the Department will take into account service providers' commercial plans to extend their networks.

Identifying commercial investment and making payments

Given the above consideration, a key design challenge in the MBBP is both to identify the number of services provided by a registered provider that are considered to be commercially provided, and to establish which particular services they are. Commercial providers' budgets do not target all funds to specific areas in advance, but to a large extent apply budgeted funds to meet demand that emerges over the budget period. It is therefore likely to be very difficult to identify which services provided by registered MBBP providers in a funding period are provided commercially, and which are provided through MBBP support.

The Department proposes to manage this issue in the following way. To identify the overall level of commercial investment by a registered provider in a funding period, it is proposed that the Department will negotiate with each registered provider to agree the number of MBBP eligible premises that its commercial plans will service for the funding period. This number of services would then be subtracted from the total number of MBBP eligible services provided in the funding period, to arrive at the number of services that would be eligible for a full MBBP incentive payment.

To facilitate an even cash flow, for both the Department and registered service providers, the Department would calculate a standard partial incentive payment, to be paid for each eligible premises serviced to be based on the ratio of forecast commercial services to MBBP services across the program. At the end of the funding period, the amount of funding received by the registered provider in partial payments would be reconciled against the amount due (according to MBBP services provided), and either additional payments made to the provider, or surplus funds received repaid. This arrangement may not need to be applied to the high-cost payments, given that these are identifiable against specific services.

Possible wholesale payment

The MBBP is proposed to be open to both wholesale and retail service providers. It is proposed that, as under HiBIS, incentive payments will be shared between the wholesale service provider and retailer where an agreement is in place. An issue that has been raised in the HiBIS context is the difficulty that infrastructure providers face in establishing a business case to upgrade services when connected services do not attract an incentive payment because they are provided by a non-registered retailer. In order to address this problem, the Department is considering whether the MBBP could make partial payments to wholesalers for upgrades provided to customers where the customers have connected via non-registered retailers.

Checking eligibility of customers

To determine eligibility, the Department proposes to prepare and make available to the public and to registered providers broadband coverage maps that show the service coverage of all commercial broadband service providers in as much detail as possible.

To assist customers to identify new coverage of MBBP providers, and to assist registered providers to determine their eligibility for an incentive payment, the Department will require all registered providers to keep records of network upgrades during the funding period, and to make this information available to other registered providers.

It should be emphasised that these maps cannot capture exact coverage, and will therefore be indicative to some extent. The program will therefore rely on supporting rules to ensure both that customers are able to access MBBP services and that registered providers are able to achieve a high degree of certainty about their eligibility for an incentive payment in all circumstances.

Feedback to this Discussion Paper

The Discussion Paper is seeking feedback from interested stakeholders about the proposed structure and operation of the MBBP. The approach set out in the Discussion Paper is not fixed and may change as a result of feedback received.

Next steps

Industry and other key stakeholders are requested to provide feedback on the proposed arrangements by 31 August 2005. It is envisaged that, where required, further consultation will continue through one-to-one meetings between the Department and individual stakeholders. To facilitate the commencement of the program in January 2006, the Department is also inviting service providers who are likely to register under the MBBP to indicate their interest in participating in the program as soon as possible.

At this stage, the Department intends to release a draft of the program guidelines in September 2005. These draft guidelines will contain comprehensive information on the structure of the program. The Department intends to formally open registration for service providers upon the release of the program's final guidelines in October 2005.

SECTION 1 - INTRODUCTION

1.1 Background / Origins

Currently it is not possible for all customers to access broadband services at comparable prices across metropolitan areas. Specifically, a significant number of people live and work in premises where Asymmetric Digital Subscriber Line (ADSL), Hybrid Fibre Coaxial (HFC) and wireless services are not available. The only form of broadband access available to such people is generally via satellite. The costs associated with delivering satellite services in metropolitan areas are generally higher than for terrestrial networks, and consequently access prices are also generally higher.

The Australian Government's 2005-06 Budget included an allocation of \$50 million for a Metropolitan Broadband Blackspots Program (MBBP) to provide equitably priced broadband access to people in metropolitan areas.

The proposed program is consistent with the National Broadband Strategy (NBS), which was developed in response to the Regional Telecommunications Inquiry and the Government's Broadband Advisory Group. The NBS identifies that 'government has an important role to play both in enabling market driven broadband outcomes and in facilitating broadband access in areas where the market may not provide services at fair and reasonable prices within an acceptable timeframe'¹.

The *Higher Bandwidth Incentive Scheme (HiBIS) Program Guidelines* are a companion document to this Discussion Paper and are referenced throughout. They can be found at http://www.dcita.gov.au/tel/higher_bandwidth_incentive_scheme_hibis/hibis_guidelines

1.2 Objectives

The primary objective of the MBBP is to provide access to equitably priced broadband services in metropolitan areas where such services would otherwise not be available due to the lack of suitable network infrastructure, and where commercial activity is not likely to result in improved access to services in the near future.

The MBBP has a number of other key objectives in common with the Australian Government's Higher Bandwidth Incentive Scheme (HiBIS). These include support for the development of an efficient and competitive market for the supply of broadband services, a technologically neutral approach to service provision and the efficient use of public funds by effectively targeting support to areas of need.

¹ *National Broadband Strategy*, page 3

1.3 Funding and duration

The MBBP is a \$50 million program, with funding commencing in the financial year 2005-06 and concluding in the financial year 2007-08. It is intended that the program will be available to the public from January 2006. The annual funding allocations for the MBBP, including the cost of administering the program, are outlined in the table below.

Financial Year	2005-06	2006-07	2007-08	Total
Funding allocation	\$10 million	\$20 million	\$20 million	\$50 million

1.4 Purpose of this paper

The purpose of this paper is to outline preliminary views on a preferred approach to the design of the MBBP, to put forward options for different approaches to some key issues, and to elicit feedback from stakeholders.

As the objectives of the program are broadly consistent with those of HiBIS, it is the Department's view that many of the key features of that program will be incorporated as part of the MBBP guidelines, including features such as:

- a per customer subsidy to be paid to registered service providers;
- the program to be open to all Internet service providers, and to be technologically neutral;
- provider relationships and processes with customers to resemble current commercial arrangements as closely as possible; and
- services to be required to meet a minimum specified quality of service, and to do so at a price that would be comparable to a similar ADSL service (or such other service that may be predominant in the market at that time). It would also be possible for providers to use incentive payments to provide higher performing services to customers.

However, the Department recognises that there are key differences between metropolitan markets and the regional areas being supported under HiBIS. The Department considers that the features distinguishing metropolitan areas include:

- a greater number of competing service providers;
- a higher level of ongoing commercial investment;
- in general, lower per unit costs associated with serving higher density populations;
- broadband blackspots tend to be fragmented and variable in size; and
- there are some particular issues in urban areas that are not as prevalent in regional areas, for example, the presence of high density apartment blocks that wireless and satellite broadband services are unable to penetrate.

Given these differences, the guidelines for the MBBP will need to differ from the *HiBIS Program Guidelines* in some respects.

A number of issues/questions for comment are highlighted in boxed sections throughout this discussion paper. These issues are collated in section three. However, comments on any other issues associated with the proposed design of the MBBP are welcome.

SECTION 2 – PROPOSED APPROACH

The following section is a brief description of the initial proposed design for the MBBP and, in some cases, a presentation of possible options. The design is subject to further refinement in light of stakeholder feedback and internal consideration.

2.1 Geographical application

Customers that are unable to access an equitably priced broadband service and who live and/or work in areas where HiBIS assistance is not available will be targeted under the MBBP. The *HiBIS Program Guidelines* describe the area where HiBIS does not apply as the Metropolitan Exclusion Area (MEA)². The MEA includes each state and territory capital city and the adjacent regional centres of Wollongong, the Central Coast of New South Wales, Newcastle, Geelong, Palmerston and the Gold Coast, including Tweed Heads.

2.2 Eligibility

As with HiBIS, it is proposed that there will be two key aspects to be assessed in determining a customer's eligibility to attract an incentive payment under the MBBP. These are the type of customer and the eligibility of the premises where the customer wants the service supplied.

2.2.1 – Types of eligible customers

As with HiBIS, not all types of broadband customers will be eligible for assistance under the MBBP. For instance, it is proposed that large enterprises will be ineligible as they are generally better placed to negotiate the competitive supply of broadband services with service providers, and are also better able to afford to have services provided.

The types of customers that will attract assistance under the MBBP are proposed to be the same as for HiBIS³. In summary, these are residential customers, small businesses (under 20 full time equivalent employees), small not-for-profit organisations (under 20 full time equivalent employees), and other not-for-profit organisations that provide a public access service.

2.2.2 – Eligible premises

The location and type of premises where a service is to be supplied will be a factor in determining whether an incentive payment is available to a registered service provider.

² See *HiBIS Program Guidelines*, section 1.3

³ See *HiBIS Program Guidelines*, section 3.1

In general, the arrangements that are proposed to apply to the MBBP are similar to those that apply under HiBIS⁴.

The definition of premises is proposed to be the same as for HiBIS⁵, that is, the premises must be a place of residence, of business, or for the operation of a not-for-profit organisation.

As with HiBIS, where eligible premises are occupied by more than one type of eligible customer, one MBBP service could be provided for each type of eligible customer. For example in the case of a home-office where a person was eligible as both a small business and residential customer, that person would be able to apply for two MBBP services.

To be eligible the premises would need to be in the MEA and not have access to a commercial service at least equivalent to a 'MBBP threshold service' (see section 2.4.1) at designated times during the life of the MBBP (see section 2.2.2.1 below for more detail).

2.2.2.1 – Period of eligibility of premises

Under HiBIS, premises that are declared eligible at the start of the program (ie they do not have access to a metro-comparable broadband service) currently attract a HiBIS subsidy for eligible service providers if they are supplied with a HiBIS service at any time over the life of the program. This occurs, provided they have not actually received either a HiBIS service or another broadband service that meets the minimum HiBIS requirements for price and service performance (metro-comparable). A premises generally remains eligible to attract a HiBIS subsidy if it was eligible at the start of the program (noting the imminent access exceptions, as discussed later in this paper).

In metropolitan areas it is considered that this approach would not be appropriate for two reasons:

- firstly, service providers should generally be able to recoup their investment on new infrastructure more quickly in the denser and more viable metropolitan markets; and
- secondly, given the scattered and localised nature of the blackspots and the likely rapid infill and commercial developments in metropolitan areas, it would be administratively difficult to 'freeze' the map of eligible areas and premises for the full three year life of the program.

Therefore it is proposed that premises eligible to receive a subsidy, on the basis that they do not have access to a commercial service at least equivalent to a MBBP threshold service, are to be defined at two key points of the program:

- firstly, at the start of the program on 1 January 2006; and

⁴ See *HiBIS program Guidelines*, section 3.2

⁵ See *HiBIS program Guidelines*, section 3.2

- secondly, on 1 July 2007.

During the first 18 month period, from 1 January 2006 to 30 June 2007, incentive payments would be available to registered providers supplying a MBBP service to premises where comparable services were not available at 1 January 2006.

During the second period, 1 July 2007 to 30 June 2008, incentive payments would be available to registered providers supplying a MBBP service to premises where MBBP comparable services were not available at 1 July 2007.

2.2.2.2 – Processes to establish eligibility of customer premises

The proposal to redefine the eligibility of premises at two points of time during the life of the program represents a departure from the current approach under HiBIS. One of the key challenges in implementing such an approach under the MBBP would be to establish administrative arrangements to allow both customers and registered service providers to readily and easily establish eligibility of premises at any one point in time.

Establishing eligibility of a customer premises under the MBBP would require answering two questions:

- Is the premises in the overall MBBP coverage area?; and
- Was a comparable service available to the premises at the start of the period?

Is the premises in the overall MBBP coverage area? It should be a relatively straightforward process for the customer or registered service provider to establish whether the customer premises is in the overall MBBP coverage area. The overall coverage area is proposed to be defined as the area not covered by HiBIS (ie the Metropolitan Exclusion Area under that program). Well established mapping and checking processes are now in place under HiBIS to establish HiBIS-eligible premises outside the MEA. It should be relatively straightforward to extend this approach to establish whether premises are within the MEA for the purposes of the MBBP.

Was a comparable service available to the premises at the start of the period?

Conceptually this is the most difficult part of the eligibility-checking process, both from the service provider and customer perspectives. Potentially, it is more complex than for HiBIS, given the dispersed and localised nature of the broadband blackspots in metropolitan areas, the likely rapid infill of these blackspots, both commercially and through the MBBP over the life of the program, and the presence of multiple service providers generally in metropolitan areas.

Despite this complexity, it is considered that this element of the program can be effectively managed, through the following proposed processes.

Central to managing this part of the program are three proposed tools and processes:

- Firstly, the Department would establish a demand register, where customers could indicate their interest in a MBBP service, and indicate that they had confirmed their eligibility as a MBBP customer;
- Secondly, the Department would issue a public map at the start of each MBBP period that showed, in as much detail as possible, the coverage of all broadband providers offering a comparable service, including both registered MBBP providers and other providers offering commercial services. This would require the Department to collect and collate detailed coverage information from service providers. Where blackspots were unable to be mapped (eg some Telstra ADSL blackspots), the map would show coverage; and
- Thirdly, all registered MBBP providers would need to keep records, either in geo-spatial form or other agreed forms, such as number ranges, of any extensions of coverage undertaken since the start of the relevant MBBP period. These records would be provided to registered providers and the general public, and would need to be auditable by the Department under the MBBP.

The process for checking premises eligibility would then proceed according to the following steps:

- An eligible customer seeking a broadband service could use the Department's map to establish whether and which broadband providers (including registered MBBP providers) were offering services in their general area, and may be able to offer them a service (at least indicatively); and
- If, following contact from an eligible customer, a registered MBBP provider was able to offer a service that would attract an MBBP payment (ie access was enabled after the start of the period), the registered provider would then need to check that no other provider could provide a MBBP compliant service at the start of the period (so that they could legitimately claim the incentive payment). This could be done by checking the Department's map, where necessary checking with provider/s where coverage was indicated, or by relying on the customer's attestation that they had checked with relevant providers that a MBBP compliant service could not be provided at the start of the period. Other registered MBBP providers would use the MBBP map, and where necessary, records of upgrades undertaken from the start of the period to respond to these queries. Customers could use evidence of failed service qualification tests (eg for ADSL) to support their attestation.

To facilitate such an approach, having the following elements in place would be very important:

- Where possible, processes to allow a registered MBBP provider who has been approached by a customer for a service, to be able to check with other relevant registered MBBP providers about service availability, rather than necessarily requiring customers to check with all other providers who may be able to offer a service;

- Accurate geographic coverage maps where this is the primary means of checking availability. Accurate maps would be important both for providing effective targeting of Government payments (where maps show no coverage) and for fair opportunities to receive incentive payments (where on first inspection it would appear that a registered provider could not claim an MBBP payment because of indicated coverage by another provider); and
- Effective processes for auditing, including the capacity to cross-check between providers' records to establish any incidence of inconsistent information about service availability.

The Department is considering a range of tools to facilitate the above proposed processes:

- An effective, well-promoted demand register where customers who have been unable to get a comparable service could register their interest, attest to the eligibility of their premises, and potentially be approached by registered MBBP providers with a service offering. The demand register would be linked with the mapping facility to allow presentation of demand in a geospatial format;
- Possibly an automated map checker, where customers could put in address and phone number details and receive a yes/no result on service availability and therefore eligibility of the premises; and
- Possibly streamlined service qualification checking between registered providers within the MBBP Online program management system.

2.2.2.3 – Department to regularly audit providers' network claims

The Department would regularly audit MBBP providers' claims regarding network coverage to confirm that subsidies are being claimed only for services provided to eligible customers at eligible premises. Providers found to regularly and/or systematically provide unreliable information would risk being deregistered and having payments already made to them reclaimed.

1. Questions: Are the above proposed arrangements feasible and reasonable, from both the customer and service provider perspective? How much information should be provided in the mapping system? Are 18 month and 12 month periods of support under the MBBP sufficient to recoup investment on infrastructure to fill backspots? Comments on any other relevant issues are welcome.

2.3 MBBP service providers

In a similar manner to the arrangements in place with HiBIS, a broadband service provider wishing to participate in the MBBP would be required to apply to the Department for registration. The applicant would be assessed in relation to its corporate, technical and financial capabilities, and financial sustainability as is required through the

HiBIS registration process⁶. Given the similarity of the registration approach being proposed to that under HiBIS, the Department would consider streamlining the process for service providers that have already been registered under HiBIS, particularly in regard to establishing corporate capability, and registration of particular services already being offered under HiBIS.

2.4 Service standards, performance and pricing

2.4.1 – MBBP Threshold Service

As part of the registration process, service providers wishing to participate in the MBBP would be required to register at least one service which satisfied the requirements of the ‘MBBP Threshold Service’. The service standard and pricing associated with the MBBP Threshold Service is proposed to be consistent with the HiBIS Threshold Service⁷, noting that this service level may be reviewed in the current review of that program.

The MBBP Threshold Service itself may be reviewed prior to 1 July 2007 and a revised MBBP Threshold Service introduced for the second term of the program (1 July 2007 to 30 June 2008).

2.5 Incentive payments

The proposed mechanism by which financial assistance would be made available is through an incentive payment to a registered Internet service provider. The incentive payment is intended to assist service providers to supply a MBBP threshold service by contributing towards the cost of providing the service. The incentive payment would be able to be claimed by a registered provider once the service had been supplied to an eligible customer at an eligible premises.

2.5.1 – Incentive levels

The Department is yet to determine the level/s of the payment that would be made available to registered service providers. In determining incentive levels, the Department would draw on its experience with HiBIS and its discussions with broadband service providers.

The Department’s initial view is that, given the higher teledensity and lower costs associated with operating and maintaining telecommunications infrastructure in metropolitan areas, the business case associated with supplying broadband services to metropolitan areas is generally more favourable than it is in regional, rural and remote markets. Accordingly, these factors are likely to be reflected in the MBBP in the form of

⁶ For an explanation of this term and how it is applied under HiBIS, see *HiBIS Program Guidelines*, sections 4.4 and 4.5.

⁷ See *HiBIS Program Guidelines*, sections 1.3, 4.6, 4.7 and 4.8.

a lower incentive payment when compared to the Standard Incentive Payment available under HiBIS⁸.

With a view to minimising the complexity of the program, and maintaining technology and competitive neutrality, the use of a single incentive level that would be made available to all registered service providers, irrespective of the type of technology and/or work undertaken, to supply a MBBP Threshold Service is favoured.

While recognising that the costs associated with different technological solutions would differ and that a range of technologies is likely to be necessary to provide services to all customers in broadband blackspots, the establishment of a single incentive level, appropriately set, for the supply of a MBBP Threshold Service would both encourage the roll-out of multiple technologies, and provide a level playing field for registered providers competing between those technologies.

An important exception to this approach is proposed for those customers and premises which may prove particularly difficult and expensive to provide with service. A proposed approach for 'high cost' premises is described at 2.5.2 below.

2. Question: The Department seeks comment on the level of the incentive payment required to supply a MBBP service to metropolitan customers in broadband blackspots.

2.5.2 – High cost premises

Under HiBIS, the Standard Incentive Payment and the High Cost Incentive Payment (for more remote high cost areas) were set at levels sufficient to make a HiBIS service available to all HiBIS customers from at least one HiBIS provider from the start of the program.

Under the MBBP it is not apparent that there would be a feasible or justified way of identifying high cost areas at the start of the program, and establishing a higher level of incentive payment for services provided to those areas. Moreover, given the overall higher commercial viability of metropolitan areas, the standard MBBP incentive payment is likely to be lower than under HiBIS, and may be insufficient to provide coverage to those relatively few premises that are more problematic and expensive to provide with a service, because of particular locational or topographic circumstances.

Given the strong equity focus of the MBBP, the Department is considering strategies that would allow such customers and premises to access a MBBP service. The Department's current preferred approach to this issue is as follows:

- Under the MBBP, the Department would establish a high cost payment and register high cost service solutions that could be applied to particularly difficult circumstances as described above. Such a payment may well be at a similar or identical level as the high cost incentive payment available under HiBIS.

⁸ See *HiBIS Program Guidelines*, section 2.5.

- If a customer had registered their premises on the MBBP demand register (see 2.9.1), had approached all registered MBBP service providers serving their general area, and after a designated period, say six months, had not been able to be provided with a MBBP Threshold Service, they could apply to the Department for registration as a high cost premises.
- The Department would then review their situation, and if satisfied that their circumstances warranted it, could register their premises as a high cost premises, and accordingly place them on a high cost register. This would allow the customer to seek a high cost service solution for the premises, and for the registered provider offering this service to be paid at the high cost rate.

3. Question: Views are sought on whether the approach proposed for premises where the proposed standard incentive payment is insufficient to provide a MBBP service, is feasible and fair.

2.5.3 – Allowable costs

Under HiBIS the concept of allowable costs has been developed and implemented. These are the costs incurred by registered providers in providing HiBIS services which, when aggregated, represent the total amount that can be paid to the service provider in any one year and over the life of the program respectively. It is an accountability measure under the program to make sure that overall HiBIS payments to any one provider are reasonably aligned to costs incurred.

The Department is considering a similar arrangement for the MBBP. Whether to proceed with an allowable costs regime may be affected by three considerations:

- the HiBIS experience (as a result of the first HiBIS review) as to whether payments are likely to exceed allowable costs for any registered HiBIS providers over the initial year and/or the life of the program;
- the possibility of shorter periods in which MBBP providers could claim incentive payments in particular areas where costs have been incurred; and
- the eventual size of the MBBP incentive payment(s).

If the Department proceeds to include the concept of allowable costs in the MBBP guidelines, it is proposed that they would closely mirror the HiBIS approach. Specifically there would be categories of allowable costs towards which service providers would be able to allocate incentive payments. These categories would be:

- costs of MBBP compliance;
- costs that are incurred in advance of signing up customers; and
- costs that are incurred when a customer is signed up.

The specific cost items under each of these categories are likely to be similar to those that apply under HiBIS⁹. Similarly, only costs incurred after the registration of a service

⁹ See *HiBIS Program Guidelines*, sections 4.13.10 and 4.13.11.

provider would be allowable and the cost must be able to be attributed directly to the cost of providing MBBP services. The one possible difference may relate to backhaul transmission, given that this cost may not be a significant issue or barrier to providing services in metropolitan areas.

As is the case with HiBIS, the cost of any items that are shared between MBBP services and other services, would only be included as allowable costs to the extent these costs are incurred in supplying a MBBP service.

Other costs that are likely to be excluded from consideration as allowable costs are:

- general administrative costs of operating the business, including staff costs, and corporate and business overheads, such as office rental, power, computing, insurance and travel;
- general marketing costs unless particular marketing costs can be demonstrated to be additional to normal requirements, and relate to the special requirements of the MBBP; and
- network and technical costs that are of a general nature and cannot be specifically or sufficiently identified and apportioned to the cost of providing MBBP Threshold Services.

It may be appropriate that the costs associated with a limited number of specific types of network upgrades necessary to fill in blackspots are quite negligible. Examples could include transpositions from an ADSL incompatible path to an alternative available path, and certain adjustments to existing wireless installations such as increases in power output and beam reshaping. In these circumstances there may be a case for not allowing these upgrades to be registered as MBBP services, on the basis that they do not incur sufficient allowable costs.

4. Questions: The Department seeks feedback on whether there should be an allowable costs regime under the MBBP, and if so, which costs associated with the MBBP should be included as allowable costs, and whether service upgrades that do not incur material costs should be excluded from support under the program.

2.5.4 – Overall cap

As noted in section 1.2 above, an objective of the program is to promote the development of sustainable competition in the broadband market. With a view to minimising the potential for the program to distort the market, the Department favours the use of a cap on the total incentive payments that any one registered MBBP service provider can claim in a single financial year and over the life of the program. Such an arrangement currently applies to service providers participating in HiBIS. The monitoring and reporting obligations relating to the administration of the payment cap would therefore be similar to those under HiBIS¹⁰.

¹⁰ See *HiBIS Program Guidelines*, section 4.13.12.

5. Question: The Department seeks feedback on an appropriate cap for any one service provider to be able to claim available incentive payments.

2.5.5 – Wholesaler-retailer arrangements

The MBBP is proposed to be open to both wholesale and retail service providers. Where there is an agreement between a wholesale service provider and a registered retailer to share the incentive payment, the wholesaler would also be required to register as a 'MBBP Wholesaler'. To be eligible for payments, the wholesaler would be required to establish that allowable costs were incurred since the beginning of each MBBP term (or if no allowable cost regime is in place, that the upgrade had taken place within that time.) It is envisaged that the arrangements for these interactions will be similar to those of HiBIS¹¹.

An issue that has been raised in the HiBIS context is the difficulty that infrastructure providers face in establishing a business case to upgrade services in any particular area under the program when connected services in the area do not attract an incentive payment because they are provided by a non-registered retailer. It has been suggested that this problem may be exacerbated under the MBBP because, while the overall business case to service blackspots may be better than for HiBIS areas generally, the business case for upgrading services to particular small groups of customers in blackspot areas (eg on small pair gain systems) may be marginal, and may be heavily reliant on all or most customers connected attracting an incentive payment.

Views are sought on how this problem could be addressed. One way may be for the MBBP to make partial payments to wholesalers for upgrades provided to customers where the customers have connected via non-registered retailers. While this approach would not allow a full MBBP service to be provided to the end customer, with the performance and price safeguards that apply to that service, it may nevertheless facilitate a more rapid infill of blackspots than would otherwise apply.

6. Question: The Department seeks comments on the appropriate arrangements that should apply where a MBBP service is provided to an eligible customer at an eligible premises by a service provider that is not registered under the program, but is reselling the services of a registered wholesaler.

2.6 Demarcation between commercial investment and MBBP support

The Department is of the view that, given the continued strong demand for broadband services and the favourable market characteristics of metropolitan areas as compared to regional rural and remote Australia, there will continue to be a business case for service providers to invest in new broadband networks or to extend their current networks,

¹¹ See *HiBIS Program Guidelines* section 4.3.

independent of financial assistance being provided by the Australian Government. Recent developments in the market for the supply of broadband services support this view.

Under HiBIS, the strategy used to take into account ongoing commercial activity has been to identify those geographic areas at the start of the program where the supply of a HiBIS service by a registered provider was imminent, as a result of identified rollout announcements, and exclude that provider and all other providers from receiving incentive payments for services supplied in the area once the commercial investment had occurred. All other activity under HiBIS then attracts an incentive payment over the life of the program.

The Department believes that the business case for commercial investment to address blackspots in metropolitan areas is much stronger than is the case for HiBIS. It is proposed to design the MBBP in such a way that Australian Government support through the provision of incentive payments is balanced with a reasonable level of commercial activity by registered MBBP providers.

To maximise the effectiveness of the available public funds, it is proposed to take planned commercial activity into account when establishing the level of the incentive payment. The mechanism that is proposed is, in cooperation with service providers, to establish the number of MBBP eligible customers that would receive a service as a result of the providers' planned commercial activity. To establish an appropriate MBBP incentive payment for each period of the program, the Department will assess the cost of providing MBBP Threshold Services to premises not likely to receive one on a commercial basis, recognising that a proportion of these premises will attract a high cost payment.

Having established the size of the incentive payments, financial support could be made available to registered service providers through the following process:

1. At the time of registering to participate in the MBBP, the service provider and the Department would agree to the number of MBBP eligible services that the service provider would supply during the financial year (ie the period of the contract) as a result of its planned commercial activity.
2. Using information provided by service providers, the Department would calculate the percentage of MBBP eligible customers across the MBBP coverage area that would not receive a service as a result of planned commercial activity of service providers.
3. Throughout the financial year, providers would be paid a partial incentive payment for each MBBP eligible customer supplied with a MBBP Threshold Service. The size of the partial incentive payment would be calculated by multiplying the full incentive payment by the percentage of MBBP eligible customers across the MBBP coverage area that are not expected to receive a service as a result of the commercial activity of service providers.
4. A reconciliation process would be undertaken half-yearly or at the end of the financial year to determine the total payment due to the service provider. The amount of funding retained by the service provider would be determined on the

basis of the value of the full incentive payment the number of eligible customers, over and above the negotiated number that the commercial budget should have addressed. The proposed process can be expressed in the following formulae:

$$\text{'Total Payment' for the year} = \text{no. of eligible customers served} \times \text{partial incentive payment}$$

$$\text{'Total Due' for the year} = (\text{no. of eligible customers served} - \text{commercially viable customers}) \times \text{full incentive payment}$$

If the Total Payment exceeds the Total Due, the registered provider would either need to repay the amount or take a debit into the next period (at the discretion of the Department). If the Total Due exceeds the Total Payment the Department would pay the registered provider the net amount due.

7. Question: The Department seeks comments on the most cost-effective, efficient and competitively fair method of taking into account reasonable expectations of commercial investment in making payments under the MBBP.

2.7 Other pro-competition measures

2.7.1 – Network information

As noted in section 1.2, an objective of the MBBP is to promote sustainable competition in the broadband market.

The Department recognises that competition among providers is increased when the availability of market information is improved. The Department’s current position is that as much information as possible concerning the location of customers in broadband blackspots should be made available to all registered MBBP providers, subject to customer privacy requirements. As one of the conditions associated with participating in the MBBP, service providers would be required to supply this coverage information.

The purpose of this information would be for registered service providers to both identify opportunities to market upgraded services to potential customers, and to check the eligibility of premises of customers seeking broadband services.

It would be preferable that information supplied to the Department be in either a geospatial form or a geographically disaggregated format. The reliability of the information would be reviewed by the Department through an audit process. Note that any information supplied to the Department would be treated as commercial-in-confidence unless otherwise marked.

8. Question: The Department seeks feedback on the type and level of detail of network information that would be required by participating broadband service providers to make

effective investment decisions to cover broadband blackspots. What would be an effective approach to obtaining this information?

2.8 Customer obligations

2.8.1 – MBBP application process to resemble commercial arrangements

The Department's intention in administering the MBBP is for current commercial consumer interfaces to be replicated as far as possible. However, given the need to guarantee that public funds are being managed appropriately it will be necessary for appropriate accountability to the Department to be incorporated as part of the process of contracting between the provider and the customer for the supply of an MBBP service.

2.9 MBBP Online

To assist the Department and MBBP providers and customers with the administration of the MBBP, the Department will establish an online program management system, MBBP Online. The system will closely resemble HiBIS Online. MBBP Online is likely to include the functionality for registered providers to make claims for incentive payments for services provided under the MBBP, and for the Department to extract reports on all elements of the program's operation.

In addition, the Department's website will contain information and maps indicating the current coverage areas of different service providers' networks and the coverage areas as at the commencement of the relevant MBBP term; and a demand register where interested eligible MBBP customers' premises can be identified.

2.9.1 – MBBP Demand Register

As is the case for HiBIS, the Department is proposing to establish an MBBP Demand Register. The purpose of the MBBP Demand Register would primarily be to allow eligible customers to register their interest in receiving a MBBP service. This would in turn allow registered MBBP providers, when they are able to supply a service to the customer's location, to be able to access the customer's contact details and offer a service.

An additional function of the MBBP Demand Register would be to assist registered broadband service providers to efficiently roll out infrastructure to provide MBBP services. Information as to the geographic location of eligible customers that have registered would be disaggregated, possibly to the level of the customer's postcode. This information may also assist communities to aggregate their demand and demonstrate to service providers that there is a business case for rolling out infrastructure in their area.

2.9.2 – MBBP Demand Register commencement date

To maximise the opportunity for providers to plan their forthcoming infrastructure rollouts, it is proposed that the MBBP Demand Register be launched some months prior to the commencement of the program. At this stage, it is envisaged that the MBBP Demand Register will be launched in October 2005.

2.9.3 – Network coverage maps

As discussed in section 2.8.2 above, the Department proposes to make up-to-date network coverage maps available to potential customers to assist them to locate a broadband service, and to assist registered providers to establish the eligibility of particular premises. The coverage of both registered and non-registered providers of comparable services would be mapped. As previously indicated, the Department is investigating the feasibility of an automated map checker.

It is proposed that customers would be able to search the maps by entering their street address, postcode and telephone number. The system would then identify whether any service provider could supply broadband services to that location and, if so, would propose to the customer that they attempt to obtain a service from that/those providers.

In the event that a location did not have access to a service, a MBBP eligibility reference number could be generated for the customer to retain, to be used as proof of eligibility.

2.10 Administration and processes

2.10.1 – MBBP administration

It is proposed that the majority of the administrative arrangements for the MBBP, including provider registration, provider obligations, service conditions, record keeping, monitoring and auditing processes will be the same as the current HiBIS administrative arrangements¹².

2.10.2 – Review and evaluation of MBBP

The terms of the review and evaluation of the MBBP will be similar to HiBIS¹³. It is likely that the MBBP mid-term review will be conducted in March 2007, with a final evaluation in July 2008.

¹² See *HiBIS Program Guidelines*, section 4 and 5.

¹³ See *HiBIS Program Guidelines*, section 7.

SECTION 3 – SUMMARY OF ISSUES FOR COMMENT

1. Questions: Are the above proposed arrangements feasible and reasonable, from both the customer and service provider perspective? How much information should be provided in the mapping system? Are 18 month and 12 month periods of support under the MBBP sufficient to recoup investment on infrastructure to fill blackspots? Comments on any other relevant issues are welcome.

2. Question: The Department seeks comment on the level of the incentive payment required to supply a MBBP service to metropolitan customers in broadband blackspots.

3. Question: Views are sought on whether the approach proposed for premises where the proposed standard incentive payment is insufficient to provide a MBBP service, is feasible and fair.

4. Questions: The Department seeks feedback on whether there should be an allowable costs regime under the MBBP, and if so, which costs associated with the MBBP should be included as allowable costs, and whether service upgrades that do not incur material costs should be excluded from the program.

5. Question: The Department seeks feedback on an appropriate cap for any one service provider to be able to claim available incentive payments.

6. Question: The Department seeks comments on the appropriate arrangements that should apply where a MBBP service is provided to an eligible customer at an eligible premises by a service provider that is not registered under the program, but is reselling the services of a registered wholesaler.

7. Question: The Department seeks comments on the most cost-effective, efficient and competitively fair method of taking into account reasonable expectations of commercial investment in making payments under the MBBP.

8. Question: The Department seeks feedback on the type and level of detail of network information that would be required by participating broadband service providers to make effective investment decisions to cover broadband blackspots. What would be an effective approach to obtaining this information?

SECTION 4 – NEXT STEPS

4.1 Stakeholder consultation

Industry and other key stakeholders are requested to provide feedback on the proposed approach to the program by close of business 31 August 2005. Comments on the issues and ideas outlined in this paper, expressions of interest, or more detailed queries (all preferably in writing) can be directed to:

Manager, Metropolitan Broadband Blackspots Program
Department of Communications, Information Technology and the Arts

Email: MBBC@dcita.gov.au

Fax: 02 6271 1850

Post: GPO Box 2154

Canberra

ACT 2601

It is envisaged that, where required, further consultation will continue through one-to-one meetings between the Department and individual stakeholders.

To facilitate the commencement of the program in January 2006, the Department is also inviting service providers who are likely to register under the MBBP to indicate their interest in participating in the program as soon as possible.

4.2 Review of submissions

Unless marked as being in-confidence, submissions arising from this discussion paper will be reviewed by the Department and posted on the Department's website.

As the Department may seek to clarify a submission and/or request further information, it would be appreciated if all parties submitting comments could provide relevant contact information.

4.3 Release of draft guidelines

At this stage, the Department intends to release a draft of the program guidelines in September 2005. These draft guidelines will contain comprehensive information on the structure of the program.

The release of the draft guidelines will give service providers a further opportunity to provide feedback to the Department on the design of the program.

However, as the major design issues have been canvassed in this document it is envisaged that provider feedback on the draft guidelines will largely focus on administrative and operational issues.

4.4 Release of final guidelines

At this stage, the Department intends to release the final program guidelines in October 2005.

4.5 Commencement of registration

The Department intends to formally open registration upon the release of the program's final guidelines in October 2005. However, only those service connections made after 1 January 2006 or the signing of individual contracts (whichever comes last) will be eligible to attract a payment under the program.