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Minister for Communications

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Dr Ziggy Switkowski
Chairman
NBN Co Limited
Level 40, 360 Elizabeth Street
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28 APR 2015

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Dear Dr Switkowski *Ziggy*

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

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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).

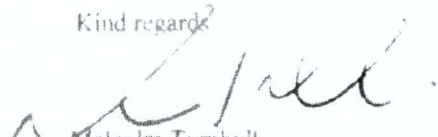
While it is up to the company to determine the basis for its estimate of an FTTP rollout, it may be that a 'Scenario 1.5' approach aligns most closely with reality.

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.

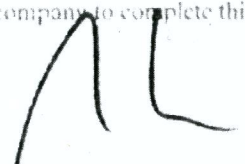
While any updated cost estimate for an FTTP rollout scenario is not expected to replicate the rigor of NBN Co's Business Plan for the MTM rollout, it should be sufficiently robust and detailed that the company is prepared to stand behind its credibility and comparison of FTTP and MTM costs. Accordingly, 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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