

According to the Department, further details of these arrangements will be developed in consultation with key stakeholders, including industry and consumer groups.

Petroc Wilton

Leasing arrangement draws fire from Nationals

The revelation that NBN Co's leasing arrangement for Telstra's infrastructure would last "beyond the horizons we'd normally look at" could mean a rich seam of recurring revenue for the telco. But the arrangement but has drawn howls of derision from Nationals leader in the Senate, Barnaby Joyce.

Asked at a press and analyst briefing how long the lease might run for, Telstra CEO David Thodey and CFO John Stanhope said that the exact timeframe would be locked down as and when a definitive agreement was settled, but that it would be of unprecedented length.

"I can assure you it's way outside any terms that you, or I, or any of our investors would consider; it's a long-term contract," said Thodey. "All that detail will come out, but for anyone who's looked at our company, it's outside any of the horizons we'd normally look at - it's a long-term [lease]."

Thodey also confirmed that, assuming sufficient space in pits and ducts, the agreement would leave Telstra with the right to lease infrastructure to other private companies in addition to NBN Co. And when challenged as to why Telstra would lease rather than sell the assets, he was frank: "We find those assets are incredibly valuable! That is all about due consideration and compensation for our shareholders - it's as simple as that," he said. "They're very important assets, and we're getting value for our shareholders."

SENATE SCORN: But hours later, the Senate exploded into fierce argument over the proposed deal, with Nationals leader Barnaby Joyce roundly castigating the government for the leasing setup.

"No wonder Telstra's happy! Telstra should be doing cartwheels about this deal... because they've got a A\$5 billion dollar lease on their ducts!" flared Joyce. "We have signed ourselves up for an A\$11 billion gratuity to Telstra... and the reason we have done that is because the Labor Party are desperately trying to find a raison d'être to go to the election [with], and they were prepared to pay any price."



"This is a deal for heaven for Telstra and a deal for hell for the Australian taxpayer. We're not buying a company here, you're leasing a hole in the ground!"

Telstra's assertion that it does not expect to bring the deal to a shareholder vote until early next year also drew Coalition fire, with Opposition senators blasting the deal announcement as an empty bid for political advantage in the run-up to the anticipated federal election. "There is in fact no deal between Telstra and NBN Co to deliver a national broadband network - in fact Minister Conroy refused to guarantee a deal this side of the election," said Liberal senator for Western Australia Mathias Cormann.

"[Prime Minister Kevin] Rudd was desperate to bring out some positive news. [He] knows the election is getting and closer... who knows that people across Australia are angry with him... who's running scared of going to the next election. And this is the only reason why this non-deal was rolled out."

Petroc Wilton

Analysts on NBN-Telstra pact: good deal, not enough detail

The groundbreaking Heads of Agreement between NBN Co and Telstra has been widely interpreted as a good deal for Telstra and a timely one for the government. However, many industry observers also point to the lack of detail provided by the parties as a reason for caution.

Gartner research VP Geoff Johnson said that while Telstra might have still preferred to keep its retail and wholesale arms intact, he believed that CEO David Thodey had done the best deal for the company under the circumstances.

"There's a lot of monkeys that have been taken off their back, particularly as they don't have to raise capital for fixed access network infrastructure as they have done for 30 years," he said, adding that the reduced universal service obligations were also a win for the company, while it would have a substantial "war chest" for marketing activities.

Ovum research director David Kennedy pointed out that Telstra's bargaining position was strengthened because the government needed a good news announcement but also pointed to a bunch of positives that the

company could take to shareholders.

“They had to come up with a deal that shareholders would agree to,” he said. “Telstra management now has a strong story around what its strategy in the fixed market will be.”

With its investment requirements reduced in the fixed sector, Kennedy suggested that Telstra could now use its cash – as well as compensation money – in areas including mobile, media services and managed services for enterprises. “Telstra has got some issues but they have some strong capabilities as well,” he noted.

The Ovum research director also pointed to advantages – as well as threats – in the deal for Telstra’s competitors. While on the one hand it levels the playing field and Telstra will become another access seeker, it will also be NBN Co’s biggest access seeker. As a result, Telstra will be NBN Co’s most important customer and its “competitors should be wary.”

DEARTH OF DETAIL: Telsyte senior analyst Emilie Ditton suggested that while on balance it was a good deal, and in line with what Telsyte’s analysis had suggested was reasonable for migration of Telstra’s fixed and broadband customers to NBN, there was a need for more detail.

“The announcement from Telstra provided top-line information about the compensation payment, but was scant on details other than that – such as timing of payments, timing of wind up of the PSTN and subscriber transfer, and the basis upon which the calculations were made,” Ditton stated.

A similar point was made by Mark Gregory, a senior lecturer in network engineering at Melbourne’s RMIT University, who noted that the government was quick to use the “commercial-in-confidence” line when anyone demanded more details of the agreement.

“How are we going to know that the best deal was done and how are the competitors going to know?” Gregory questioned.

While he praised the agreement in terms of improving the access network, Gregory was also critical of what the deal means for backhaul access, noting that any deal that would see NBN leasing Telstra infrastructure “should set alarm bells ringing”.

“It’s a real worry because there’s not enough competition in that backhaul space,” he said. “To be honest I was hoping they (NBN) would be forced to compete with Telstra on backhaul because you need the competition.”

Ovum’s Kennedy suggested that NBN Co would be able to negotiate good prices on backhaul and predicted that backhaul pricing would be part of the overall deal struck between Telstra and NBN Co. But he also suggested that competitors would have to monitor the situation.

“Obviously the rest of the industry will need to watch negotiations fairly closely and should be demanding a lot of transparency,” he said.

Geoff Long

Carriers cautiously support NBN deal but call for passage of reform bill to provide scrutiny

A number of carriers have expressed tentative initial support for the heads of agreement reached between NBN Co, Telstra and the Federal Government, undaunted in the face of proposed USO changes that could see subsidies increased. However, some are concerned the deal will not receive adequate scrutiny unless the Competition and Consumer Safeguards Bill is passed.

“The NBN is the future of broadband in Australia and iiNet had always believed it would be better served by having Telstra involved rather than not,” said iiNet CEO Michael Malone. “From our initial examination of yesterday’s announcement, the agreement is consistent with the Federal Government’s earlier commitments of an open access network, structural separation and regulatory reform.”

An AAPT spokesperson told CommsDay that “while the heads of agreement appears to be a step in the right direction, it’s too early to comment without seeing the detail.”

REFORM BILL MUST BE PASSED: Whilst initially optimistic about the agreement, Macquarie Telecom’s Matt Healy stressed the need for regulatory oversight. “What is still missing is an appropriate legislative structure for the deal to operate in, which gives consumer and competitor safeguards to the progression of the ‘deal,’” he told CommsDay. “So the urgent issue to be addressed is the passing of the [Competition and Consumer Safeguards Bill] presently in the Senate; we’re at a loss to understand why there would be any objection to the bill as competitors, consumer groups and even Telstra have all signed on.”