Technology

Time to take Crown fibre back to the market

Michael Wigley

Crown Fibre Holdings, the state-owned company charged with sorting out the successful bidders for the government's $1.4 billion ultrafast broadband funding, may now be thinking, "Now we have all this information, where to next?"

Does Crown Fibre Holdings need to reformulate the Ultrafast broadband structure and put that out for public feedback?

Some outsiders have a fear of smoky room deals, given that the proposals and discussions are confidential: the fears may well not be justified, but the perception remains.

If press reports are right, there are signs that Crown Fibre Holdings should or must update the position publicly, and seek feedback.

What's happening?

So far, Ultrafast broadband bidders have lodged proposals responding to Crown Fibre Holdings' Invitation to Participate. They are discussing issues with Crown Fibre Holdings and then they can lodge revised proposals (if Crown Fibre Holdings asks for that).

Due to the Crown Fibre Holdings confidential lock-up, we can only guess at what is happening.

But press reports indicate that bids which don't comply with the invitation are under consideration and that meeting the requirements set out in the invitation may not be possible.

If the reports are correct, one thing is apparent: Crown Fibre Holdings will at least have to reformulate the requirements and give all the existing bidders opportunity to re-submit. Plus the changes must be publicly available on a website.

Complex projects like this require nuanced judgment calls.

A striking feature of public procurement requirements – often seen as a bureaucratic hassle – is that they promote rather than hinder great outcomes.

Problems usually arise because the rules are not applied as well as they should be.

In addition to going back to bidders, Crown Fibre Holdings might also have to consider going out to the open market, to cover parties that weren't interested in the original Invitation.

Get feedback from other stakeholders?

What about other stakeholders such as the users of the network: wholesale customers and end users? The approach after all should be dominated by their needs.

Maybe public law requires they are consulted. Again, we can only speculate given the confidentiality.

Compared to Australia, very light analysis

Last week's $A20 million McKinsey/KPMG Implementation Study on the Australia's fibre initiative provides some strong pointers erring toward getting wide feedback.

The Australian initiative differs and is bigger. But at the core is the same major inflexion point. Both governments are driving the shape of the telecommunications marketplace for at least 40 years.

As the McKinsey/KPMG report notes, the copper network was in place for 50 years; the fibre replacement will be the major network for at least the next 40 years.

McKinsey/KPMG therefore focus on the long term.

The New Zealand approach has had much lighter analysis, even considering relative sizes and wallets.

There are many recommendations in the Australian report which should give Crown Fibre Holdings cause to reflect.

For example, there are two levels of service under consideration in both Australia and New Zealand: Layer 1 (dark fibre) and Layer 2 (bitstream which is provided using electronics over the dark fibre layer).

The Crown Fibre Holdings initiative is trending toward allowing the funded network operators to provide both Layers 1 and 2.

McKinsey/KPMG recommend that only Layer 2 is available over the funded network during the first few years. This is said to encourage competition.

After a few years, the network company would probably change to provide only Layer 1 services (maybe with Layer 2 services in a separate company). At that stage, this will be the most beneficial. This suggests further working through the options in New Zealand.

Over the fibre networks, McKinsey/KPMG say the price that a wholesale customer pays per month for the basic end user connection should be the same throughout the country.

This means urban dwellers subsidise users who are more expensive to connect. This is "averaged" as opposed to "de-averaged."

For regulators and other policy makers, the choice between the two is a major issue.

By way of a request for submissions on the McKinsey/KPMG report, the Australians are seeking stakeholder feedback.

New Zealand has come nowhere close to this level of consultation. For example, for Ultrafast broadband, de-averaged pricing has slipped through in a simple amendment to the Invitation. The original Invitation called for a single price in each region.

Given the importance of getting Ultrafast broadband right, it's hard to see how issues can be adequately resolved solely between Crown Fibre Holdings, bidders, and officials, quite apart from any possible legal obligation to consult.

Far better to get it right now, even if that involves delay, than live long term with market problems. A few months out of 40 years.

How far can Crown Fibre Holdings go?

An excellent feature of the Invitation is the ability for Crown Fibre Holdings and bidders to discuss their initial proposals, followed by changed proposals.

Internationally, this is best-practice for complex projects.

However, in New Zealand, this way of doing things is relatively novel.

There are considerable challenges in discussions such as this, including the degree to which information is shared with all parties, the manner of engagement (level of formality, recording of meetings, and maybe even a probity auditor present at meetings) and so on. Getting the balance right calls for carefully thought-out principles of engagement to meet probity and optimal project objectives.

There is a sign that, initially, this may not have been fully worked through.

The Invitation notes that the purpose of the discussions is to allow Crown Fibre Holdings to "gain a better understanding of ..." the initial proposal.

That does not allow for Crown Fibre Holdings feeding back information to bidders so that they can then sharpen up their bids. Maybe that problem has been fixed (that's not hard).

But it does at least raise the question of whether Crown Fibre Holdings are communicating by applying optimal principles of engagement.

It's a high-wire walk for Crown Fibre Holdings, trying to get the best outcomes where there are many moving parts, while minimising the risk of a jilted bidder taking action. But both are achievable.

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PRINTOUT

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Huh? Cellphones on planes are okay?

Emirates has teamed with Telecom to become the first airline flying out of New Zealand to offer in-flight mobile phone calls and web surfing – albeit at sky-high pricing (see Travel, page 28). That's a change of pace from the "please turn off your mobile devices as they may interfere with your aircraft's navigation systems" message passengers are used to hearing.

What gives?

According to a Telecom rep, a special on-board, low-power cellsite from AeroMobile "provides a technology that controls and adjusts the signal strength of passengers' mobile phones to ensure there is no interference to aircraft equipment – yet also doesn't hinder texting, calling or 2G data services. Such services are linked into the aircraft's satellite communications systems and then relayed to land." Telecom is talking to New Zealand airlines about inflight mobile phone service but at this point none have any planes with AeroMobile or similar base stations installed, so it will be some time yet before Air NZ travellers get to sit next to a yabbering passenger.

Crown fibre contenders shape up

The process for selecting partners for the government's $1.5 billion ultrafast broadband (Ultrafast broadband) initiative might be happening in ultraslow, and murky, fashion. But some of the contenders are starting to come into sharper resolution. This week, Canada's Axia NetMedia, which wants to build a single, national network, revealed that its mystery local partner is Vodafone NZ. If Axia wins the Crown fibre contract, Vodafone will be one of its retailers and, more crucially, has the option to take an equity stake in the local fibre company that would be set up by the Canadian company if it wins (which could be up to 49% under Ultrafast broadband bidding rules). The Ultrafast broadband process remains confidential and shrouded in mystery overall. But Vodafone chief executive Russell Stanners – who was joined at the Auckland announcement of the deal by Axia boss Art Price – said he wanted to go public at this point to eliminate negative perceptions about secret deals. An Axia rep compared the putative deal to the arrangement in Singapore, where the Canadian company won a similar Crown fibre contract after roping in Singtel-Optus, which took a 30% stake in Open Net, a consortium created by Axia. Crown Fibre Holdings is due to reach (but probably not publically announce) its shortlist of private partners at the end of June.

Vector in the frame too

Uniquely – as far as we know – among those chasing the infrastructure tender, Axia also wants to extend the Crown subsidised fibre rollout to backhaul for mobile (that is, cable connecting celltowers to a phone company's main network). Axia chief executive Art Price told *NBR* all mobile phone companies could share this one backhaul network, while competition took place at the wireless level. Vodafone's Mr Stanners was more ambivalent about this concept, saying only that this company would consider buying backhaul from Axia if the price was right. The chief executive also said his company was talking to Vector (its long-standing fibre backhaul partner), and other bidders: "We have to. No one knows who's going to be successful." However, "talks with Axia are the most advanced," Mr Stanners said.

Regional Fibre Group gets a leader

Meanwhile, the Regional Fibre Group – an alliance of lines companies and fibre operators chasing Crown fibre contracts (including Vector in Auckland and TeamTalk's Citylink in Wellington) appointed a fulltime chief executive: Vaughan Baker, most recently a consultant with IT services outfit Voco. At TelstraClear, Crown fibre focus slipped, with senior manager and head of national broadband network engagement Matthew Bolland resigning. Mr Bolland is heading for 2degrees, where Printout is told he will work corporate affairs and work closely with chief commercial officer Bill McCabe – most often seen grappling with the Commerce Commission and politicians on regulatory issues like mobile termination rates.