

BROADBAND INVESTMENT FUND

RURAL CRITERIA

Outcome Sought

The Government proposes to provide seed funding to accelerate the deployment of broadband infrastructure in rural areas that do not presently have terrestrial based broadband service capable of supporting achievement of Digital Strategy 2.0 objectives¹. The focus will be on communities, businesses and users in the health, education and wider government sectors in rural areas.

Seed Funding Objectives

The project eligibility and assessment criteria are aimed at:

- o enabling the provision of business, educational, health and social connectivity service, broadband connection based applications to rural area communities, businesses and users in the health, education and wider government sectors;
- o promoting services based competition and facilitating industry cooperation in sharing broadband infrastructure on an open access basis, including fibre and wireless based infrastructure competition; and
- o building broadband infrastructure at a local level to provide a stepping stone for future network capability expansions.

Any government seed funding will be allocated via a contestable process that will ensure the adoption of localised, bottom-up solutions. The rural criteria have been drafted to ensure that a technology-neutral approach has been taken to incentivising the roll-out of broadband infrastructure in rural regions.

Process

First Year Funding Application

The following process will be used to allocate seed funding:

- o **Stage One:** *Expressions of Interest:* the purpose of which is to satisfy the decision-maker that the proposal is sufficiently robust to merit consideration of a Full Application.

Applicants will also need to identify a need for assistance with the development of a business case at this stage.

Note: In the first funding round, applicants can elect to go straight to Stage Two, below, as part of an accelerated *One-Stage Process*.

¹ In particular, with a speed capability of 1 Mbps or greater

- **Stage Two: Full Application:** applications will subsequently be considered against:
 - *Eligibility Criteria:* these conditions are required to be met in order for the project to be assessed for funding; and
 - *Assessment Criteria:* these are weighted considerations against which the decision-maker will exercise its discretion on whether to allocate funding.

Those who choose the *One-Stage Process* will not have access to funding to develop the business case. These projects will be evaluated and assessed against each other for allocation of seed funding.

The timelines associated with the first year of the Broadband Investment Fund can be summarised as:

	Two-Stage Process	One-Stage Process
Criteria released	26 August 2008	26 August 2008
Expression of Interest due	30 September 2008	-
Decision made on Expression of Interest	October 2008	-
Full Application due	February 2009	30 September 2008
Decision made on Full Application	May 2009	December 2008

Note: unsuccessful *One-Stage Process* applicants will subsequently have the opportunity to submit a new Full Application in February 2009 as part of the *Two-Stage Process*.

In subsequent years, these two separate processes will be replaced with a single process involving an Expression of Interest followed by a Full Application. Expressions of Interest will be due every twelve months, starting from end July 2009, with Full Applications due six months later, starting end January 2010.

Funding Application Process in Future Years

The Government is currently undertaking a review of the Local Service Telecommunications Service Obligations (TSO).

A key component of the Local Service TSO is the provision of telephone services to those users who otherwise would not be offered a service at an affordable price. The supply of uneconomic TSO local service is currently subsidised partly by Telecom revenues for profitable telephone services and partly by a levy on the telecommunications industry.

The Local TSO review is:

- considering the case for introducing contestability into the supply of Local TSO service and the way subsidy funding for the service is disbursed; and
- assessing the need for additional requirements to ensure that TSO service providers, deploy rural telecommunications infrastructure to standards consistent with international best practice (the vast majority of uneconomic customers are in the rural areas of New Zealand).

The criteria for the first round of the Rural Fund have been configured in such a way as not to pre-empt or impact unduly upon the finalisation of the TSO review. On completion of the first funding round an evaluation will be undertaken to consider if criteria changes will be required to accommodate any changes arising from the TSO review. Therefore funding arrangements for rural broadband projects in future years may differ from the current criteria.

Qualifying Rural Areas and Broadband Infrastructure Capability Issues

A number of factors have been taken into account in deciding what best identifies a “rural area” that would qualify to apply for broadband investment fund assistance.

Most, if not all, access lines in urban areas either already have relatively high broadband capability or will in the near future when Telecom has completed its fibre enabled cabinet plans. However, the coverage and capability of rural broadband infrastructure is low.

In general, but with some exceptions, the capability of the broadband infrastructure is usually better in rural areas that are:

- located close to sizeable urban areas; and
- adjacent to major national fibre backhaul routes.

Population density in rural areas varies from about 12 people per square km in areas adjacent to major urban areas to 0.5 in very remote areas. Urban communities typically have densities of >200 people per square kilometre, some 20+ times greater than rural areas.

Telecom New Zealand's Zone 4 rural definition as defined in its 31 March 2008 Operational Separation Undertakings, has ~16% of New Zealand's population. This zone is focused on rural population centres with fewer than 500 dwellings and business entities, and their surrounding rural areas. Effectively Telecom's cabinetisation programme will not extend into Zone 4, so is a useful way of approximating a boundary between rural and urban areas.

The qualifying rural area criteria will be those communities that do not have terrestrial based broadband infrastructure capable of providing broadband service with a speed capability of 1 Mbps or greater and for which there are no current commercial plans to provide such infrastructure (including reference to Telecom's fibre enabled cabinet plans).

In practice this approach will mean that qualifying rural areas will mainly be the more remote rural areas without terrestrial based broadband capable infrastructure.

The cost on a per user basis of providing high speed broadband capability in more remote rural areas is likely to be considerably more expensive than in urban areas and therefore it may not be affordable to adopt the urban area Digital Strategy 2.0 objective in such rural areas.

Accordingly:

- the Government recognises that the more remote that a community is, the less commercially viable it will be for the private sector to make investments;
- the Government's expectations of 1:1 funding for rural broadband projects is not an absolute requirement; and
- the level of private sector funding is still a significant requirement for approval, i.e. the more private sector funding, the greater the prospect of a project being approved.

A Digital Strategy 2.0 rural broadband access infrastructure design objective of 5Mbps/1Mbps is being used for the purpose of terrestrial based projects that will contribute to accelerating the rollout of rural broadband infrastructure. This goal means that proposals should achieve high coverage of 1 Mbps service and significant 5 Mbps coverage.

For example, an ADSL1 system would deliver 5Mbps over approximately 30% of Telecom's existing rural telephone access lines and 1 Mbps to 55% of these lines. (This infrastructure capability assessment does not take into account existing backhaul constraints in some rural areas).

Adoption of a terrestrial based 5Mbps/1Mbps infrastructure design objective will not preclude consideration of community based projects where satellite based infrastructure is the only practical solution.

The 5Mbps/1Mbps broadband access infrastructure design objective does not preclude proposals from offering higher speed capability solutions.

EXPRESSIONS OF INTEREST

This assessment stage will confirm that a project's proposed service area largely does not have terrestrial based broadband infrastructure capable of providing broadband service, and then briefly examine the likely outcomes of the submitted projects.

Applicants will be required to demonstrate the involvement of suppliers with a strong track record in relevant telecommunications service business operation and explain how they intend to implement the project by submitting the required supporting information, which amounts to a preliminary business plan.

Satellite based projects to provide remote communities with better broadband infrastructure will be eligible to be considered as long as they deliver strong additional benefits to the community.²

² Note to applicants: the Government will not be supporting satellite solutions to individual households. However, this does not preclude the prospect of innovative *community* solutions that utilise satellite technologies (i.e. as a backhaul link or a hub).

The submitted projects will be compared to quickly identify a list of potentially viable proposals that:

- are likely to meet the project criteria by the time that full applications are required to be submitted; and
- are capable of prompt implementation.

Project proposals that also rely on allocation of urban broadband seed funding must clearly identify such a requirement.

EOI Applicants will be able to apply for applicant development assistance (ADA) funding, to assist them in the preparation of a Full Application, should their EOI be successful.

[Note to Applicants: ADA funding is predominantly aimed at local authorities and organisations representing community interests]

Applicants will be able to apply for no more than 10% of the BIF funding requested (within a limit of \$100,000) and will be required to justify why they need ADA funding - i.e. their estimated overall budget will need to be provided as part of the EOI application and Applicants will need to clearly explain why they cannot fund their application from existing funding streams. ADA funding will not need to be refunded if applicants are unsuccessful at Full Application stage

FULL APPLICATION

This stage will, where necessary, include clarifying submissions with project applicants.

[Note to Applicants: Where pragmatic, a bundled urban and rural bid will be considered, where it is clear that the rural component is significantly small in comparison to the urban component, for example small rural areas on the fringe of major urban conurbations]

The following criteria will be used to carry out an in-depth assessment of each proposed project received at this stage:

- C1** seed funding requirements, including the level and ratio of private co-investment (higher levels will be preferred);
- C2** ability to complete project build on time, within budget and provide users with a range of broadband services;
- C3** the 5Mbps and 1 Mbps access infrastructure broadband speed coverage. Satellite based projects assessment will not have to comply with the terrestrial based infrastructure speed capability objective, but will have to set out and guarantee the minimum in service access link speeds;
- C4** extent of estimated community benefits, including improved services to schools and health organisations, and benefits expressed on a per user basis. With respect to this criterion, submissions should separately identify any neighbouring areas where the broadband speed coverage will be improved by the proposed project;

- C5** long term project financial viability; and
- C6** other benefits, including whether the new infrastructure will offer non-discriminatory open access to other parties and the extent to which such infrastructure is likely to provide leverage for future broadband infrastructure developments and service delivery in neighbouring rural areas.

Weighting will be applied to criteria C1 to C6, with C1, C2 and C3 being more heavily weighted. Specific weighting has not been allocated to the criteria in order to provide more flexibility to address key rural area broadband infrastructure needs.

In making funding allocation decisions consideration will also be given to the regional spread of projects, although this may be a relatively low priority in the event that some regions have few viable project proposals. Any regional disparities that arise in this round are likely to be moderated in future funding rounds.

[Note to Applicants: The final funding agreement will be with and must be executed by the legal entity that is the owner and/or controller of the supported infrastructure over which the broadband services will be provided.]