

# The Treasury

## Strategic Issues and Shareholder Expectations Letters Information Release

### Release Document

April 2015

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [5] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [6] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



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27 February 2015

The Hon Bill English  
Minister for Finance  
Parliament Buildings  
Private Bag 18888  
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The Hon Todd McClay  
Minister for State Owned Enterprises  
Parliament Buildings  
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Dear Ministers English and McClay

### **CFH STRATEGIC ISSUES**

I am writing in response to your Letter of Expectations dated 19 December 2014, which set out the expectations of Shareholding Ministers for Crown Fibre Holdings (**CFH**) for 2015/16.

The Letter of Expectations outlines the key shareholder expectations for CFH, in particular the importance to the Government of delivering the Ultra-Fast Broadband (**UFB**) Objective within the current \$1.345 billion funding envelope and supporting the Government's proposed broadband programme extensions.

UFB deployment at 31 December 2014 was 7% ahead of plan with 42% of the UFB Objective having been completed. In total UFB has now passed over 570,000 end users (such as households and businesses), representing approximately 29% of population. Within UFB coverage areas, around 79% of businesses and 95% of schools have access to UFB. In the past twelve months total UFB connections have nearly quadrupled to over 69,000. Uptake is now over 11% and is steadily increasing with the benefit of growing volume of orders for UFB services and improved offerings from Retail Service Providers (**RSPs**). Demand continues to be consistent with comparable international initiatives at this stage of deployment and market readiness.

The expectations set for CFH in its previous Statements of Intent have been met or exceeded.

There are some strategic issues which CFH would like to bring to Shareholding Ministers' attention. These issues are being actively managed and monitored by CFH, and at this stage CFH does not believe they will impact CFH's ability to meet Shareholding Ministers' expectations.

#### **1. Financial:**

The key financial strategic issues for CFH are:

- **CFH \$1.345 billion funding envelope:** CFH is managing the UFB Objective to remain within the funding envelope. CFH will advise Shareholding Ministers if there is any risk that this may be in jeopardy.
- **CFH Budgeted Operating Losses 2014/15:** As noted below, CFH is providing assistance to the Ministry of Business, Innovation and Employment (**MBIE**) in advising options for the implementation of the Government's proposed extensions to the UFB and Rural Broadband Initiatives. [2]

[2]

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[2]

- **OBEGAL impacts 2015/16:** At this stage, CFH is not aware of any impacts to 2015/16 forecasted operational losses which would impact OBEGAL. [2,5]  
[2,5]  
[2,5] CFH would advise Ministers, the Treasury and MBIE in advance of any further amendments to CFH funding arrangements with partners which may have an impact on 2015/16 forecast operational losses.
- **Net Present Value of Crown funding:** CFH's aim is to ensure that any changes to UFB contracts between CFH and Partners remain NPV neutral to CFH. If this is at risk, CFH will advise the Treasury and Ministers.

## 2. Partner Issues:

Issues with UFB Partners are on the whole at a reduced level from 2014/15, and at present, CFH does not believe the overall UFB Objective is at risk. However, some issues which require active management are outlined below:

- **Chorus Limited (69.5% of UFB):** UFB deployment by Chorus is currently ahead of plan (by 4% as at 31 December 2014, project to date). As Ministers are aware, in 2014 CFH made some contractual changes including a contingent forward funding arrangement and some amendments to the Network Infrastructure Project Agreement (which governs the UFB deployment). In December 2014 the Commerce Commission released a draft decision on the Final Pricing Principle for copper-based broadband which will, if confirmed, provide Chorus with improved financial capacity. [5]  
[5] CFH will continue to monitor Chorus's ability to fulfil its UFB obligations and will keep Ministers, MBIE and the Treasury informed on this.
- **WEL Networks Limited (WNL) (14% of UFB):** WNL's UFB deployment is currently ahead of plan (by 13% as at 31 December 2014, project to date) and is likely to be completed ahead of the original plan of mid-2016. [2.6]  
[2.6] At this stage CFH does not anticipate any material commercial issues with WNL in 2015/16.
- **Enable Services Limited/Christchurch City Holdings Limited (ESL/CCHL) (15% of UFB):** As at 31 December 2014 deployment was 10% ahead of plan. [2.6]  
[2.6]  
[2.6]  
[2.6]  
[2.6]
- **Northpower Limited (1.5% of UFB):** Northpower completed its UFB deployment in April 2014 and since then has been focussed on connecting end users. Northpower continues to have the highest level of UFB uptake in the initiative. CFH does not anticipate any commercial issues with Northpower in 2015/16.

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### 3. Broadband Programme Extensions:

CFH is providing assistance to MBIE on options to implement the Government's proposed extensions to the UFB and Rural Broadband Initiatives. CFH's experience with the UFB initiative will assist in informing both the process and timetable for the programme extensions. On the basis that the Government decides to proceed with the extension programmes and use CFH as the implementation agency, CFH is capable of fulfilling this role given its previous experience with the current UFB initiative.

### 4. Policy and Regulatory Issues:

CFH will continue to provide advice to MBIE as requested to address any supply side issues to UFB uptake. [3]

[3]

[3] CFH is supportive of the Government's current consideration of this area.

CFH will also support MBIE officials as requested in the development of a review of the Telecommunications Act.

### Summary

Finally, I note your advice that CFH will continue to have a clear, but limited role in encouraging UFB uptake. CFH will continue to support MBIE and engage with RSPs, partners and other stakeholders such as business groups to encourage UFB uptake. As part of this, CFH will continue to work with industry to reduce barriers to UFB uptake.

I look forward to discussing these strategic issues with Shareholding Ministers and the Minister for Communications in due course as part of developing CFH's Statement of Performance Expectations for 2015/16.

Yours sincerely



Simon Allen  
Chair

Copies to:

Minister for Economic Development

Minister for Communications

Bruce Parkes - MBIE

Jason Yuschik – Treasury Commercial Operations