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Hon David Cunliffe
Minister for Communications and Information Technology
Parliament Buildings
WELLINGTON

Dear David

Re-affirming Telecom's commitment to rural New Zealand

Following submission of our Further Amended Undertakings yesterday, I wanted to give you an update on the actions we are taking to further demonstrate our continued commitment to rural New Zealand.

Partnering with rural New Zealand to extend fast broadband

As you know, we have already committed to deploying a fibre to the node-based high speed broadband network which will cover all towns and cities with 500 or more lines - about 80% of New Zealand. In fact, we expect the increase in broadband capabilities within the local access network will mean that 84% of lines will be capable of 10Mbps or more within the local access network, and 89% capable of 5Mbps.

The business case for extending this deployment into the final 20% of New Zealand is very challenging but we want to make a strong commitment to actively exploring partnership options with other parties including councils and other funders to extend coverage to New Zealanders and customers in remote and rural areas.

To this end, we will shortly publicly offer to host three workshops in May with interested parties including local government bodies, aimed at developing options to extend broadband to rural and remote locations through the use of Public Private Partnerships (PPPs). These workshops will be held in regional centres and attended by senior Telecom management, and we hope to be able to report back quickly to those interested parties with more detail on PPP models we think will work for Telecom and potential partners, so that we can start working with interested parties on real proposals.

We will at the same time reaffirm our interest in exploring cost sharing options with other industry players.

Accounting for TSO spending in rural New Zealand

I also want to be far more transparent going forward about what the TSO means for our rural customers, and how we apply the compensation we receive under the TSO in our rural capital expenditure planning. Frankly, I have found the existing funding methodology difficult to understand, and the fact the funding calculations are three years in arrears makes a proper reconciliation of expenditure to the existing TSO very challenging.

To this end, I am committing to ensuring that in relation to the 2008-09 TSO year the level of per annum capital expenditure in rural New Zealand¹ will not be less than (but may be greater than) the amount of TSO compensation payments that will be received by Telecom from other service providers in relation to the relevant year². I am also committing now to openly and transparently accounting and expending future TSO compensation payments we receive under the local service TSO instrument. I will use best endeavours to reach agreement with you on the new TSO by 30 June 2008. I understand it is the Crown's position that expenditure calculated for the purpose of the local service TSO should be spent in the relevant area¹.

I am also committing to agreeing a funding methodology for future TSO instrument(s) which is clearer and simpler than the existing one, in order to facilitate this. We have been working closely with industry in the TCF on agreeing a technology neutral voice service specification to facilitate a competitive residential voice service TSO in the future, which I understand is at a stage where the TCF is now seeking public comment on its draft proposals. This work I think creates a solid base on which the industry and the Government can progress a new voice service TSO arrangement.

Yours sincerely



Paul Reynolds
CHIEF EXECUTIVE OFFICER

¹ In this letter, rural New Zealand means zone 4 as defined in Telecom's Separation Plan dated 25 March 2008.

² In the absence of definite data, we will have to use a reasonable estimate of the likely eventual TSO compensation in respect of the relevant year. In the event that our estimates are inaccurate, we will make adjustments as soon as practicable to ensure we meet this commitment.