



## **New Zealand's Digital Pathway: A Fast Broadband Future**

### **Broadband Investment Fund: Draft Criteria and Proposed Process for Consultation**

978-0-478-31673-5 (PDF)  
978-0-478-31674-2 (HTML)

# Broadband Investment Fund

## Purpose

This document summarises the key aspects of the Broadband Investment Fund and seeks public submissions on:

- ★ the proposed timing for funding rounds for the Urban and Rural Funds;
- ★ the proposed process for accessing funding; and
- ★ the draft eligibility criteria for the Urban and Rural Funds (annexed to this document).

Submitters are invited to address areas of interest and are not expected to provide responses to all questions.

The consultation period will **close on 30 June 2008**. More information is available at: [www.med.govt.nz/broadbandinvestment](http://www.med.govt.nz/broadbandinvestment).

## Background

Infrastructure that supports advanced broadband services enables high-value, weightless products created in New Zealand, such as research, design and digital media, to be provided to customers anywhere in the world. New Zealand's small size and distance from our markets means this infrastructure is essential to building our country's reputation as a location for investment and skills. Increased use of advanced broadband services by firms and households also has the potential to bring substantial gains that will transform New Zealand's economy and improve our level of environmental sustainability.

The draft Digital Strategy 2.0 takes a holistic approach to promoting the development of the skills, confidence and content that are necessary to obtain the best value from fast broadband. The Strategy identifies 'connection' – the widespread availability of fast and affordable broadband that meets the needs of New Zealanders – as a critical enabler of New Zealand's digital future.

Recent telecommunications regulatory changes such as the Operational Separation of Telecom New Zealand have laid the foundations for greater competition and investment in the telecommunications sector. Targeted stimulus policies are now necessary to build on these gains. It is apparent that the most effective means of leveraging substantial private sector investment in key aspects of broadband infrastructure is through the provision of contestable grants.

## The Broadband Investment Fund

A carefully balanced package has been designed to facilitate high speed broadband connections to businesses in urban centres and key users in the health and education sectors, to extend the reach of broadband into underserved regions, and to improve the resilience of New Zealand's international connections. The government also intends to better utilise the scale of the government's purchasing of broadband services to promote competition and investment.

The Broadband Investment Fund represents the first down-payment on the government's long term vision for a fast broadband future of fibre, or equivalent high bandwidth technology, to the home.

The Fund was announced in Budget 2008 and comprises \$325 million operating and \$15 million capital funding (over five years), aimed at:

- ★ facilitating high speed connections to businesses and key public users<sup>1</sup> in urban centres through the deployment and wholesaling of open access passive broadband infrastructure (up to \$250 million operating over five years);
- ★ extending the reach of broadband into underserved regions (up to \$75 million operating over five years); and
- ★ improving the resilience of New Zealand's international connections and placing downward pressure on the pricing of international bandwidth (up to \$15 million capital funding in 2008/09) through the deployment of a new trans-Tasman cable.

Government has agreed to these priority areas and indicative funding levels. The funding will be available through a flexible multi-year appropriation so as to allow government to re-evaluate funding priorities as investment occurs.

The funding will be spent on partnerships and projects that clearly demonstrate their public-good benefits and contribution to the critical investment areas outlined above. In urban centres support will be provided to connect key users with advanced broadband infrastructure that are required to be operated on an open access (at the ducting and dark fibre level) and non-discriminatory basis – as a key stepping stone to fibre, or equivalent high bandwidth technology, to the home. In rural areas technology neutral and open-access requirements will be applied but will be adjusted to recognise the different conditions that apply in rural areas.

It is anticipated that any legal entity (including network operators, local authorities and community-based organisations) will be able to apply to access funding.

Strong partnerships and collaboration between central and local government, the private sector and communities will be critical to achieving New Zealand's broadband aspirations. Multiple rural communities will be able to aggregate their applications.

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<sup>1</sup> Including, but not limited to, health organisations, tertiary institutions, schools and other public or municipal entities.

No more than 30% of the total funding available for rural and urban projects will be allocated in any one year. This condition provides a guarantee as to the ongoing nature of the Fund and is designed to support the robust development of business cases and partnerships.

## The Urban Fund

The priority for government in urban centres is to support the delivery of high-bandwidth services to businesses, health organisations, tertiary institutions, schools and other public or municipal entities in a manner that supports competition and future investment in fibre, or equivalent high bandwidth technology, to the home. The government has concluded that the most appropriate mechanism to attain this objective is to achieve maximum leverage through the provision of seed funding for the deployment of open access passive infrastructure (ducting and dark fibre) in urban centres and surrounding suburbs. The urban criteria will not preclude applications from entities wishing to also provide services to end-users, but have been designed to attract a wide range of potential investors and to prevent the emergence of vertically integrated monopolies.

The seed funding will be provided as operating grants and the government will not require any financial return on its funding. A minimum co-investment at least equal to the Crown's contribution will be required, but with higher levels of co-investment strongly preferred.

This mechanism will ensure fibre connections are available to high bandwidth users in a given urban location and will also substantially lower the costs for those businesses wishing to access a fibre connection by bringing the fibre much closer to their premises. Building on the government's recent regulatory changes, this mechanism will not only promote competition at the deepest level of the network, but will substantially lower the greatest barrier to investment in fibre to the home: the civil costs associated with digging up the road and laying ducting. As a result of this initiative, all network operators will have the opportunity to utilise the ducting or the dark-fibre as a 'base component' from which they can provide subsequent connections to end-users (whether fibre, DSL or wireless connections).

Another key aspect of the urban criteria is that there is no requirement for applicants to provide telecommunications services in order to be eligible for funding – something that many investors, lines companies and local councils considering 'duct-only' networks are likely to be very interested in examining (such applicants will still need to demonstrate a sustainable business case, which may require partnerships with a range of telecommunications operator).

The government is aware that the broadband landscape is changing constantly, and the draft criteria have been developed with this in mind. They are designed to be flexible enough to allow a wide range of projects to be considered over time. The [draft urban criteria](#) are included as [Annex Two](#).

# The Rural Fund

The government’s priority in rural areas is to extend the reach of broadband into underserved regions. The focus of the Rural Fund will be the deployment of new and improved broadband connections to communities, businesses and users in the health, education and wider government sectors in rural areas. The government has concluded that the most appropriate mechanism is a contestable and technology neutral process that has sufficient flexibility to support the deployment of backhaul links, ‘last mile’ broadband solutions and demand-pull initiatives.<sup>2</sup>

The government is also 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. More detail on the relationship between the TSO and the Rural Fund is set out [Annex Three](#).

[Draft criteria for the Rural Fund](#) are included as [Annex Three](#).

## Differences In Approach – Urban And Rural

The key differences between the urban and rural funds are outlined in the table below. These differences are the reason for having separate criteria and weightings for the individual urban and rural funds. It will be the responsibility of the applicant to determine which fund is appropriate for their proposal.

Your feedback is welcome on the differences outlined in the table.

Urban Criteria	Rural Criteria
For areas that have terrestrial broadband available currently or are likely to in the near future (e.g. within Telecom’s cabinetisation plans).	Only for areas that have no current or planned terrestrial broadband (with an appropriate service defined as a minimum of 1Mbps).
The absolute requirements in the criteria are more onerous (e.g. at least 1:1 funding but with preference for higher private co-investment, requiring wholesaling of passive infrastructure, open access requirements).	The absolute requirements in the criteria are less onerous (e.g. open access requirements are not absolute where commercially non-viable).
Criteria include quite specific percentage weightings.	No percentage weightings in criteria, just ranking order.
While some projects may be commercially viable in the long-term, government funding will accelerate the deployment and will change the nature of the investment (i.e. to require wholesaling of passive infrastructure) to support government’s objectives.	Projects are unlikely to be commercially viable without funding.

<sup>2</sup> Demand-pull projects are primarily for the health and education sectors.

## International

The priority for government is to see the deployment of a further trans-Tasman cable to improve the resilience of New Zealand's international communication links and to improve competition to exert downward pressure on the price of international bandwidth. The government considers there is merit in acting as an anchor tenant for the deployment of a second trans-Tasman cable by purchasing sufficient international bandwidth to meet the future needs of the research and education sectors. The government notes that private sector activity is occurring and it intends to monitor these developments. A process for implementation is being developed in parallel to the Broadband Investment Fund.

## Demand Aggregation

In addition to providing seed funding to target specific infrastructure gaps, a complementary initiative is underway to better leverage public spending on broadband. There are opportunities for greater coordination in the purchasing decisions of public entities (particularly in the health and education sectors) to further stimulate investment and to achieve better value from advanced broadband services.

The government plans to spend at least \$160 million over the next five years on connectivity in the health and education sectors, including through the KAREN<sup>3</sup> network, and through the GSN<sup>4</sup>. In order to effectively leverage government expenditure across the state sector, and to promote the uptake of services across newly deployed high-speed urban networks, the government is prepared to make available money from the Broadband Investment Fund to support demand-side initiatives (to be spent in conjunction with Broadband Investment Fund initiatives). Government is considering a number of policy mechanisms in this area and will announce decisions later this year.

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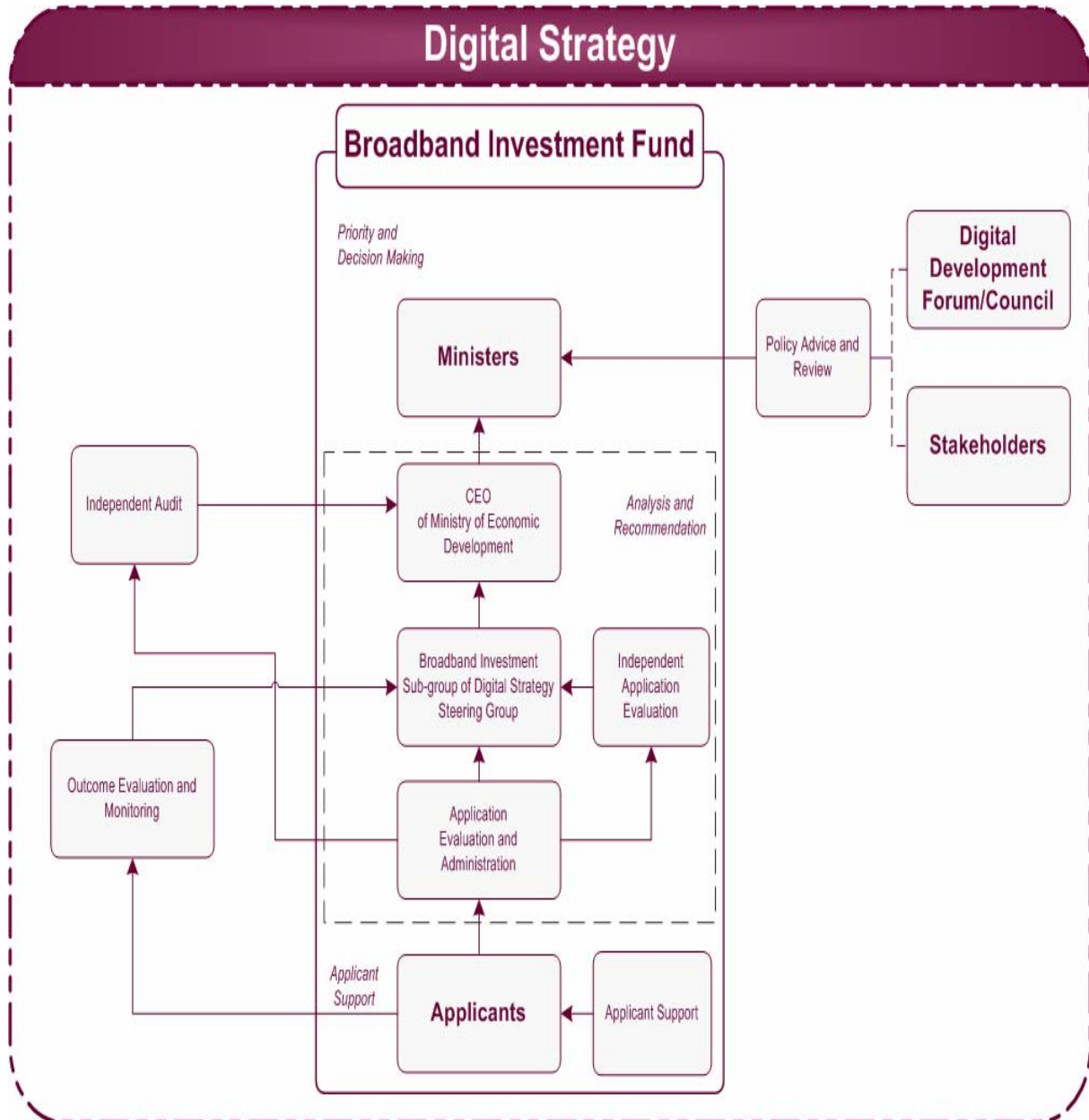
<sup>3</sup> Kiwi Advanced Research and Education Network.

<sup>4</sup> Government Shared Network.

# Process For Allocating Funding

## Process Structure

The diagram below illustrates the proposed process structure for the Broadband Investment Fund. It is focussed on providing a fair, consistent and robust decision-making process while maintaining the ability to provide assistance to applicants that require it.



The process structure is characterised by the following layers:

### **Applicant Support**

- Applicant support will be structurally separated from the decision-making process and be at a level that is appropriate to the applicant's needs.

### **Analysis and Recommendation**

- Independent evaluators will assess applications against the criteria and provide reports to the Broadband Investment Sub-Group of the Digital Strategy Steering Group. The Sub-Group will be a government-convened group with the appropriate mix of technical, policy, legal and financial skills.
- The Broadband Investment Sub-Group will make recommendations to the Minister for Communications and Information Technology ([Expression of Interest](#) stage) and Cabinet ([Full Application](#) stage).

### **Policy and Decision-Making**

- Decision-making by Ministers will be supported by robust technical and effectiveness advice, informed by stakeholder input.

### **Evaluation and Audit**

- The structure supports the effective administration of the Fund, consistent with Office of the Auditor General and Treasury guidance.
- An independent process audit will be carried out at the end of each funding year to ensure that processes have been implemented appropriately and that decisions made are robust, fair and consistent.

### **Digital Development Forum and Council**

- The role of the Digital Development Forum will be to develop strategic priorities and advise Ministers on achieving our digital potential. The Council will respond to the issues and priorities set by the Forum, by developing a detailed work programme.

## Application Process

It is proposed that applications for funding under both the urban and rural funds will be determined through a two-stage process:

**Expressions of Interest (EOI) Stage:** Applicants seeking funding will be required to submit a preliminary application and outline supporting documents. The purpose of this stage will be to determine which Applicants will be invited to submit a full application. Applicants might also be able to access a small amount of funding to support development of a full business case for the later approval stage. For the Broadband Challenge Fund, urban applicants were able to apply for a \$50,000 grant to assist with the development of applications. A similar funding arrangement for the Broadband Investment Fund will be examined.

Applicants will have to demonstrate their eligibility against the Broadband Investment Fund Eligibility Criteria (attached), and demonstrate a reasonable case that they will meet the Broadband Investment Fund investment criteria at the Full Application Stage.

It is expected that this first stage process will be more streamlined and simplified than the process followed for the Broadband Challenge Fund.

**Full Application Stage:** It is proposed that Applicants who are invited to submit a Full Application will then submit a comprehensive business case for their project. The Full Applications will be assessed against the criteria and the level of funding (if any) will be determined at this stage.

Applicants will be required to demonstrate that they meet the eligibility criteria and demonstrate how they meet the Broadband Investment Fund Assessment Criteria. The amount of funding and any conditions will be determined at this stage.

Applications for both funds will have to meet specific requirements regarding their content and format. Templates and application forms will be released with the final criteria in an effort to reduce administrative burden for Applicants.

The assessment criteria for the Full Application Stage are available and should be carefully considered before making an application at the EOI stage.

Being unsuccessful at either the EOI or Full Application Stage will not preclude Applicants from submitting revised applications in subsequent rounds.

The management of the application process will take account of stakeholders' feedback and experience gained from the Broadband Challenge Fund and Community Partnerships Fund announced and implemented under the 2005 Digital Strategy.

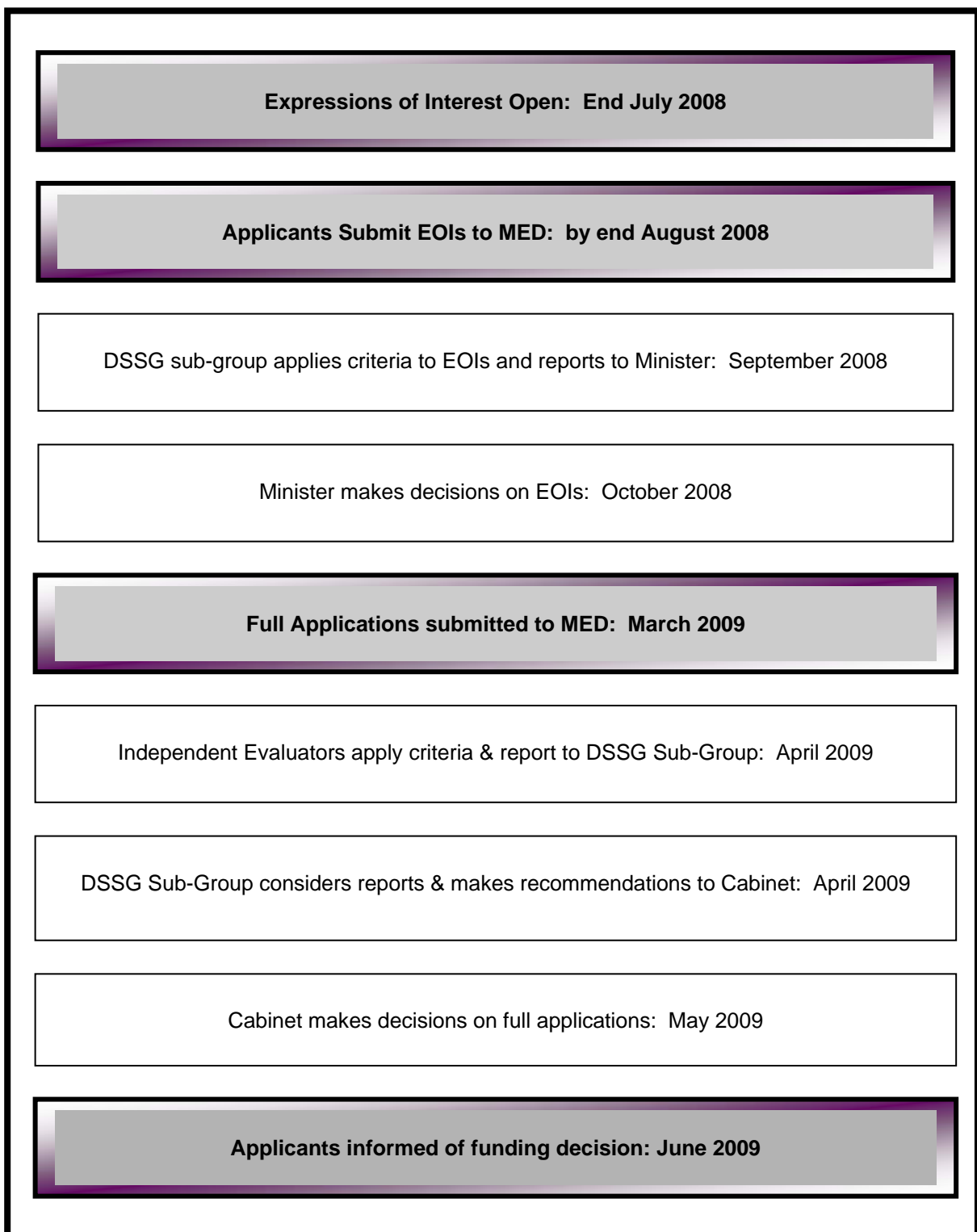
## Decision-Making Process

**EOI stage:** EOIs will be assessed by the Broadband Investment Sub-Group of the Digital Strategy Steering Group against the Broadband Investment Fund relevant criteria. The government-convened sub-group will consist of an appropriate mix of technical, policy, financial and legal skills.

It is proposed that the sub-group will provide recommendations to the Minister for Communications and Information Technology, who will make the decisions under delegated authority from Cabinet.

**Full application stage:** It is proposed that Full Applications will be assessed by independent evaluators based on the Broadband Investment Fund Assessment Criteria for each of the priority areas. The independent evaluators will provide a report to the Sub-Group, which will review the report and provide recommendations to Cabinet. Cabinet will be responsible for making the final funding decisions.

## Indicative Timetable



# Annex One: Key Consultation Questions on Broadband Investment Fund

## Questions on Urban Criteria

1. Will the proposed timeframes provide Applicants with sufficient time to fully complete the application requirements?
2. Are any amendments needed to the draft criteria to improve the outcome of the Urban Fund?
3. Should successful Applicants be prevented from offering Application Services across the supported broadband infrastructure?
4. The draft urban criteria include absolute criteria and weighted criteria. Are there any absolute criteria that you consider are too onerous and should instead be classed as percentage weighted criteria?
5. Do you agree with the percentage weightings in the urban criteria?
6. What do you consider to be an appropriate level of applicant assistance (e.g. a list of relevant experts, funding, case management)?
7. Does the proposed timing raise any issues for your planning processes?

## Questions on Rural Criteria

As with the Urban Fund, a contestable process is proposed for the Rural Fund. Given the TSO review that is currently underway, it is proposed that in the first year the Rural Fund will be focussed on funding broadband solutions for small communities. On completion of the first round an evaluation will be undertaken to consider what changes will be required to the criteria to accommodate any changes required as a result of the TSO review.

We would welcome feedback from rural communities in particular.

1. Do you agree with the proposed outcome of the Rural Fund?
2. Do you consider that there should be a secondary outcome that relates to improving rural voice services?
3. Given the significant cost increases to deploy high-speed broadband in rural and remote areas and the better potential coverage that may be provided at a lower cost but also at lower speeds (including potentially by wireless rather than fibre) should the rural criteria be set at a lower speed than urban?
4. Do you think that mobile/wireless solutions would provide the required level of broadband service?

5. Do you agree that rural applicants should be required to offer open access to their infrastructure, bearer and/or application services?
6. The rural criteria do not specify percentage weightings but rather are ranked in order of priority. This has been proposed in order to retain the greater level of flexibility that is required in rural areas. Do you consider that percentage weightings should be specified at the expense of flexibility?
7. Consideration is being given to limiting interim seed funding for a rural project to a maximum of \$500,000, with a proviso that neighbouring communities would be permitted to apply for a greater funding amount where a combined solution leads to a lower overall cost per new broadband access connection. Do you agree with this approach?
8. What do you consider to be an appropriate level of applicant assistance (e.g. list of relevant experts, funding, case management)?
9. Will the proposed timeline provide applicants with sufficient time to fully complete the application requirements?
10. Does the proposed timing raise any issues for your planning processes?

# Annex Two: Broadband Investment Fund – Draft Urban Criteria

## Outcome Sought

The deployment of high speed broadband connections to key businesses and users in the health and education sectors (tertiary institutions, schools and health organisations) in urban centres and their surrounds, with all operators having the opportunity to access the underlying passive infrastructure.

## Objectives in Providing Seed Funding

The eligibility criteria will achieve the following:

- ★ enabling the provision of rich media applications through the deployment of high-speed broadband connections to businesses and users in the health and education sectors;
- ★ promoting competition at the deepest level of the network through the deployment and wholesaling of passive infrastructure (ducting and dark fibre) on an open access basis;
- ★ building the competition and infrastructure necessary at a local level to provide the telecommunications sector with a stepping stone for future network expansions (fixed and wireless), including achieving the high-level goal of widespread fibre-to-the-home within a decade; and
- ★ ensuring that local traffic on supported networks can remain local by providing for peering points and points of interconnection, operating on a non-discriminatory basis.

## Process

There is a two-staged process for applying for funding:

- ★ **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; and
- ★ **Stage Two:** *Full Application*: those applications that were successful at the Expression of Interest stage 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.

## Expressions of Interest

*Expressions of Interest will be assessed on the nature of the project, the expected outcomes, and the likelihood that applicants will meet the [Eligibility Criteria](#) by the time that full applications are to be submitted.*

Applicants at the Expression of Interest stage are required to submit a proposal (suggestion of 10-20 pages) that demonstrates, amongst other aspects:

- (a) likely levels of co-investment and support from local authorities and/or local providers (in-kind or otherwise);
- (b) the extent to which the Network will be new infrastructure, an extension of existing infrastructure or a combination of both;
- (c) the likely number of Key Public Users and businesses that will be targeted to receive connections;
- (d) projected demand scenarios and anticipated levels of usage (these are projections only and do not need to be finalised);
- (e) the proposed business model of the applicant, including reference to open access principles, wholesale and retail services, if applicable;
- (f) the nature and experience of proposed business partners and their potential role in this proposal; and
- (g) an estimate of the likely total project cost, contribution from the applicant and partners, and the likely level of funding needed from central government to complete the project.

Applicants must also complete an Expression of Interest application form, which will require:

- (a) applicant comment on each of the [Eligibility Criteria \(Section A\)](#) of the full application (note: eligibility criteria do not need to be met at this stage); and
- (b) confirmation that the applicant has taken the [Assessment Criteria \(Section B\)](#) into account and that they consider they have a reasonable chance of being successful at the full application stage.

# Full Application

The key terms used in this application can be found in [Section C: Index of Terms](#).

## Section A: Eligibility Criteria

An application is required to meet each of the following criteria before the application will be considered for funding under the [Assessment Criteria](#) in [Section B](#). The decision-maker retains full discretion in determining whether an application is deemed to meet these criteria.

### 1. Nature of the Applicant

- 1.1 The Applicant will be a legal entity applying in its own right or on behalf of a formally defined Partnership (the Applicant).

### 2. Nature of the Project

- 2.1 The application will relate to a Project that will invest in new and/or upgraded broadband access capability (the Network).
- 2.2 The application will specify the geographic area that the Network will cover (the coverage area).
- 2.3 The decision-maker may determine that a part of an application that does not involve direct connection to End-Users (and therefore does not meet the definition of a Network in clause 2.1) is nevertheless eligible for funding if the decision-maker is satisfied that:
  - (a) The part of the application is for broadband capability that links the Network with another network or networks; and
  - (b) The application demonstrates a particular need for investment in such capability.

### 3. Wholesale and Open Access Requirements

- 3.1 The application will demonstrate that the Network Entity will, as a minimum offering, make Infrastructure Services available to all Third Party Service Providers on a fair and non-discriminatory basis.
- 3.2 The application will demonstrate that where the Network Entity chooses to offer Bearer Services and/or Application Services to any End-User or Third Party Provider, the Network Entity will make access to Bearer Services available to all Third Party Service Providers on a fair and non-discriminatory basis.
- 3.3 The application will demonstrate that the Network Entity will comply with the following features:
  - (a) Where the Network Entity provides Infrastructure Services, Bearer Services and/or Application Services, it will do so in an unbundled manner, so that an End-User who purchases only one of these services from the Network Entity can do so on the same terms and conditions as

an End-User who purchases more than one of the above services from the Network Entity;

- (b) Any End-User will be able to purchase any permutation of Infrastructure Services, Bearer Services, and Application Services from any combination of the Network Entity, and any number of Third Party Service Providers;

- 3.4 The application will demonstrate that the physical and logical design of the Network, and any technologies used as part of the Network, will support the requirements in clauses 3.1, 3.2 and 3.3.
- 3.5 The application will demonstrate that the Network Entity will facilitate interconnection services that enable Third Party Service Providers to be connected to the Network in a manner that supports the requirements in clauses 3.1, 3.2 and 3.3, and meets the requirements set out in [Appendix 1: Interconnection Requirements](#).
- 3.6 The application will demonstrate that the ownership and governance arrangements of the Network Entity, and the operational and commercial strategies and processes of the Network Entity, support the open access features stated in clauses 3.1, 3.2 and 3.3.
- 3.7 Should the application be successful, the Applicant will consent to taking sufficient safeguards to maintain the open access features stated in clauses 3.1, 3.2 and 3.3 over the long-term.

#### **4. Fit for Purpose Requirements**

- 4.1 The application will demonstrate that the applicant has made all reasonable endeavours to provide, as a minimum, Passive Infrastructure to all relevant Key Public Users in the coverage area.

*[Note to Applicants: the number of these entities that will receive a connection is a primary consideration for assessing whether projects will be allocated funding under [Section B](#)].*

#### **5. Government Funding**

- 5.1 The application will demonstrate that funding allocated from the Broadband Investment Fund will not account for more than 50 percent of the total cost of the Project.
- 5.2 The Applicant's contribution towards the total cost of the Project will be clearly outlined as specified in [Appendix 2: Valuation Methodology](#).

*[Note to Applicants: the relative proportion of the total Project cost that is sought from the Broadband Investment Fund will be a key consideration for assessing whether projects will be allocated funding under [Section B](#)].*

## Section B: Assessment Criteria

*The following assessment criteria will be used by the decision-maker when considering applications that are deemed eligible under [Section A](#). The decision-maker retains full discretion in whether or not to approve funding under these criteria and reserves the right to approve funding for a lesser amount than that sought by the applicant.*

*The assessment criteria will be accorded the following indicative weightings by the decision-maker (with specific weightings outlined in the text below):*

- 30% - *Demonstration of the Project's Benefits*
- 30% - *Commitment of the Applicant, including any partners*
- 25% - *The Capability of the Applicant*
- 15% - *The Network Entity's Sustainability and Potential for Expansion*

### **6. Demonstration of the Project's Benefits (30%)**

6.1 Applications will be assessed on the provision of documentation that supports the likelihood of the Project achieving the following objectives:

- (a) provision of significant community benefits; and
- (b) satisfaction of a community demand that has not been met by existing commercial providers.

6.2 The following matters may be relevant in relation to clause 6.1:

- (a) the extent of the Network's coverage, including the number of Key Public Users that are provided with Passive Infrastructure connections;
- (b) the network capability to service the broader community, including business users;
- (c) the nature of unmet community demand that is likely to be satisfied by the Project;
- (d) the degree to which the Network does not unnecessarily duplicate similar infrastructure;
- (e) the degree to which the Network is able to support a number of access technologies (i.e. as a 'last mile' and/or backhaul solution for other 'local loop' technologies within an urban location);
- (f) the degree of alignment and integration of the Project with other community, regional, and national Information and Communication Technology initiatives (including where relevant any Digital Strategy 2.0 initiatives and the One Plan for Auckland); and
- (g) any other information or factors the decision-maker considers, in its sole discretion, to be relevant.

### **7. The Commitment of the Applicant, including any partners (30%)**

7.1 Applications will be assessed on the level of ongoing commitment from the Applicant, including financial and/or in-kind contributions. Applications will be assessed on the likelihood that:

- (a) the Applicant will bring a significant level of financial and in-kind contributions to the project (which must be at least 1:1 and for which higher levels of private co-investment will be preferred); and
- (b) the Applicant will have sufficient and evidenced aggregated demand to ensure the viability of the capital expenditure needed to complete the Project (and confirmed through the Business Plan).

7.2 The following matters may be relevant in relation to clause 7.1:

- (a) the relative proportion of the total Project cost that is sought from the Broadband Investment Fund as compared to other Projects;
- (b) the proportion of financial or in-kind contributions from non-government sources, including monetary, infrastructural or other in-kind assets;
- (c) the extent of involvement and support (not required to be financial) from local authorities and/or regional economic development agencies;
- (d) the relativity between the level of funding sought from government and the number of Passive Infrastructure connections provided to Key Public Users and businesses;
- (e) the extent to which government funding is needed to ensure the viability of the Project;
- (f) the level of indicated aggregated demand, including commitments from current or potential broadband users in a given sector or geographical region; and
- (g) any other information or factors the decision-maker considers, in its sole discretion, to be relevant.

## **8. The Capability of the Applicant (25%)**

8.1 Applications will be assessed on the likelihood that the Project is capable of being successfully delivered. Applications will be assessed on whether the capability of the Applicant:

- (b) is sufficient to ensure the Project meets the requirements set out in the eligibility criteria; and
- (b) is sufficient to ensure the timely achievement of the Project.

8.2 The following matters may be relevant in relation to clause 8.1:

- (a) the level of relevant expertise available to the Applicant;
- (b) the experience and track-record of the proposed implementers of the Project;
- (c) the robustness of the proposed governance and ownership arrangements and the extent to which they support the requirements set out in the eligibility criteria;
- (d) the financial viability and management capability of the Applicant and the extent to which they support the requirements set out in the eligibility criteria;
- (e) where a Partnership is involved, the steps the parties in the Partnership will take to ensure there is no opportunity for conflicts of interest when dealing with any potential customer;
- (f) evidence of effective project planning for all stages of the Project;
- (g) the Applicant's assessment of risks and ability to mitigate risks; and

- (h) any other information or factors the decision-maker considers, in its sole discretion, to be relevant.

**9. The Network Entity's Sustainability and Potential for Expansion (15%)**

9.1 Applications will be assessed on the likelihood that they will deliver a long-term, scalable broadband solution, including the likelihood that:

- (a) the Network Entity is sustainable beyond the term of any government grant (as evidenced in the Business Plan); and
- (b) the Network Entity has the capacity and potential to expand in the future.

9.2 The following matters may be relevant in relation to clause 9.1:

- (a) the likelihood of the Network Entity attaining a positive cash-flow within its first four years of operation;
- (b) the extent to which the Network Entity will be able to attract non-government equity investment to fund any expansion;
- (c) the extent of market opportunities that are feasibly available to the Network Entity as potential avenues for any expansion;
- (d) the level of scalability or excess capacity in the infrastructure aspects of the Project;
- (e) the Network Entity's proposed wholesale services and pricing methodologies;
- (f) the extent to which the Network is designed so that the Passive Infrastructure can potentially be extended to provide fibre-to-the-home services in the future (implementation not required);
- (g) the capability of the Network Entity to maintain the Open Access features stated in clause 3 of the eligibility criteria over the long-term;
- (h) where relevant, the extent of the Network Entity's commitment to open and transparent reporting of performance (financial and build-out), including reporting on the use of public funds; and
- (i) any other information or factors the decision-maker considers, in its sole discretion, to be relevant.

## Section C: Index of Key Terms

**'Applicant'** means the entity who is applying for funding under this programme.

**'Application Service'** means a service carried by a Bearer Service over the Network (e.g. email, ISP services).

**'Bearer Service'** means provision of an active transmission service over the Network to an End-User or Third Party Service Provider.

**'End-User'** means a user of any of the Bearer or Application Services provided over the Network.

**'Infrastructure Service'** means access to Passive Infrastructure.

**'Key Public Users'** means including, but not limited to, health organisations, tertiary institutions, schools and municipal entities.

**'The Network'** means any combination of capability, including Infrastructure, Bearer or Application Services that allow an End-User, within a defined coverage area, to be connected with any other End-User connected to the same capability within the coverage area and/or to any Third Party Service Provider interconnected to the capability.

**'Network Entity'** means the legal entity that is the final owner and/or controller of the Network.

**'Partnership'** means the group of organisations, persons, and customers acting collaboratively on the Project, including but not limited to a partnership under the Partnership Act 1908.

**'Passive Infrastructure'** includes, where available, one or more of passive duct and/or micro-duct services, the supply of aerial pole access way services, or the supply of passive dark fibre optic services.

**'The Project'** means the proposed set of actions that will result in the creation of an operational Network.

**'Third Party Service Provider'** means any other service provider which offers a type of telecommunications service independent of the Network Entity, including, but not limited to Infrastructure Service Providers, Bearer Service Providers and Application Service Providers.

## Section D: Supporting Documents for Full Application

The full application will include the following information to demonstrate compliance with the [Eligibility Criteria \(Section A\)](#):

- (a) a completed application form (to be provided);
- (b) a technical plan and map of the proposed network (*clauses 2, 3, 4*);
- (c) a business plan that includes, amongst other aspects:
  - i) a proposed Governance and Ownership Framework for the Network Entity (including constitutional arrangements) (*clauses 1, 3*);
  - ii) the services the Network Entity will provide to Third Party Service Providers and/or End-Users (*clauses 3, 4*); and
  - iii) relevant financial costings and statements (*clause 5*);
- (d) evidence of 'reasonable endeavours' to connect Key Public Users and proposed connections (*clause 4*); and
- (e) any other documents that are relevant to the application.

It is up to each Applicant to consider the supporting documentation that they will need to provide to demonstrate the merits of their application under [Section B](#). Applicants should take into account the relative weightings that have been allocated to assessment criteria when considering the supporting documentation that should be submitted. As part of the submission, it is strongly recommended that Applicants submit a robust and long-term business plan that reflects the value of the Project, the capability and commitment of the Applicant, and potential strategies for future investment.

## Appendix 1: Interconnection Requirements

Referred to in: [Section A](#), clause 3.5

**As appropriate for the capability being delivered, the Network will facilitate one or more Points of Interconnection, which will support:**

- ★ An interconnection facility between sites connected to the Network and any Third Party Service Provider;
- ★ One or more points at which interconnection can be facilitated on a seamless and non-discriminatory basis with other Third Party Service Providers;
- ★ The ability to aggregate local data traffic, if required;
- ★ Connections to other local, national and international networks to enable End-Users to access a wide variety of applications, locally, nationally and internationally;
- ★ Where appropriate, a facility for Bearer Service access that is well-located and that places no unreasonable restrictions on third-party service provider access or the type of service provided;
- ★ Where appropriate, a facility for Application Service access that is well located and that places no unreasonable restrictions on Third Party Service Provider access or the type of service provided;
- ★ Where appropriate, a peering mechanism for the efficient exchange and routing of information between the Network and other Third Party Service Providers; and
- ★ Where appropriate, a peering regime that avoids expensive and unnecessary national or international transit where source and destination are within the same regional or national boundary.

**Where appropriate, the physical housing for an Interconnection Facility will:**

- ★ Provide housing for the appropriate infrastructure and/or network equipment;
- ★ Enable the convenient linking of terminal equipment and/or systems to enable the provision of inter-network connectivity; and
- ★ Provide the environmental services required to support the above.

Where physical housing is required it will also be designed so as to provide very high standards of robustness, physical security and access security, and the ability to maintain operational capability through at least short-term power failures.

## Appendix 2: Valuation Methodology

Referred to in: [Section A](#), clause 5.2

The decision maker retains full discretion for determining the total Project cost and the appropriate contribution made by the Applicant and partners for the purposes of satisfying these criteria. Contributions may fall under the following three categories and should be valued following the designated methodology:

### ★ Direct Monetary Contributions

Monetary contributions will only be counted toward the Applicant's aggregate contribution if they are transferred to the Network Entity.

Monetary contributions are to be valued at their nominal value.

### ★ Existing Infrastructure Contributions

Contributions of existing infrastructure will only be counted if ownership and/or control of the infrastructure are transferred to the Network Entity.

Infrastructure contributions are to be valued at their inflation-adjusted historic cost. The valuation should be discounted by the projected cost of refurbishing the asset to a standard suitable for use in the planned network.

### ★ Other In-kind Contributions

Other in-kind contributions may include equipment or services provided by partners.

Other in-kind contributions are to be valued at market replacement cost.

Applications should clearly outline the extent to which 'other in-kind' contributions are additional to existing baseline activity and certify that the expenses would not be incurred by the applicant or their partners if the Project did not go ahead. For example, the reprioritisation of staff within an organisation to support the Project would not be counted as an appropriate in-kind contribution to the Project.

**Please note: Contributions will not be counted if there is any obligation to repay in the future.**

# Annex Three: Broadband Investment Fund – Draft 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, to support achievement of Digital Strategy 2.0 objectives. 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:

- ★ 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;
- ★ 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
- ★ 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*

There is a two staged process for the allocation of seed funding in the first year:

- ★ **Stage One - Expression of Interest:** the purpose of this stage is to quickly identify a list of potentially viable proposals that are:
  - likely to meet the project criteria; and
  - capable of prompt implementation.

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

- ★ **Stage Two - Proposal finalisation and funding allocation:** those applications that are successful at the first stage will subsequently be more fully developed, evaluated and assessed against each other for allocation of seed funding.

### ***Funding Application Process in Future Years***

The government is currently undertaking a review of the Local Service.

The government is also 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 fund investment 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;
- ★ 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.<sup>5</sup> 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 defining a boundary between rural and urban areas.

It is proposed that the qualifying rural area criteria should be those communities that do not have terrestrial based broadband infrastructure capable of providing broadband service 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.

An interim Digital Strategy 2.0 broadband access infrastructure design objective of 5Mbps/1Mbps is being considered for the purpose of terrestrial based projects that will contribute to accelerating the rollout of rural broadband infrastructure. If adopted this goal would mean 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.

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<sup>5</sup> See [Appendix 2](#) for a breakdown of rural population density statistics.

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

## **Project Proposal Assessment Criteria**

### ***Expressions of Interest (EOI) Assessment***

This assessment stage will confirm that a project's proposed service area 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.<sup>6</sup>

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.

### ***Final Project Proposal Assessment***

This stage is likely to include the need to clarify submissions with project applicants.

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;

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<sup>6</sup> 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).

- C4** Extent of estimated community benefits, including benefits expressed on a per user basis;
- C5** Long term project financial viability;
- 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.

## Appendix 1: Information to be provided to Support Project Proposals

The following information will be required in respect of each proposed project either at the [Expression of Interest](#) (EOI) stage or at the proposal finalisation and funding allocation (Final) stage.

Information required	Stage required
<p><b>1 Project description:</b></p> <ul style="list-style-type: none"> <li>a. The scope of the proposed project, infrastructure build, service delivery and support;</li> <li>b. Geographic area covered;</li> <li>c. Technology (e.g. fibre backhaul, WiMax local access);</li> <li>d. Description of proposed services including speed capability, service standard and provider(s);</li> <li>e. Extent to which the project is stand alone infrastructure or an incremental extension of existing infrastructure.</li> </ul>	<p>Provide intentions at the EOI stage</p> <p>Must confirm all at Final stage</p>
<p><b>2 Market assessment:</b> Provide a high level demand assessment including proposed end-users (including where applicable, key public users).</p>	<p>Brief demand estimate at EOI Full assessment at Final stage</p>
<p><b>3 Commercial ability and arrangements:</b></p> <ul style="list-style-type: none"> <li>a. Commercial structure including names, type, shareholdings, partnership;</li> <li>b. In respect of a new partnership - a proposed Governance and Ownership Framework for the Network Entity (including constitutional arrangements);</li> <li>c. Commercial track record of the proposed service provider in operating a telecommunications services business;</li> <li>d. Financial arrangements, including total cost of the project, the level of proposed seed funding required, other funding etc;</li> <li>e. High level three year financial plan (establishment costs, revenue streams, Opex etc);</li> <li>f. Provide a financial plan that demonstrates the projects long term viability;</li> <li>g. Seed funding payments link to major project milestones.</li> </ul>	<p>EOI</p> <p>Final stage</p> <p>EOI, confirm at Final stage Outline at EOI, full at Final Final stage</p> <p>Final stage</p> <p>Final stage</p>
<p><b>4 Community benefits:</b> Provide an assessment of the estimated community benefits, including estimates of the broadband speed capability coverage bands, and an estimate of potential benefits per user.</p>	<p>Outline at EOI Full at Final stage</p>
<p><b>5 Other benefits:</b> Extent to which the proposed new infrastructure may provide the basis for delivering future benefits. For example, is there potential to provide leverage for future broadband infrastructure developments and service delivery in neighbouring rural areas.</p>	<p>Final stage</p>

Information required	Stage required
<p><b>6 Assumptions:</b> Clearly set out any underlying assumptions.</p>	<p>At relevant stage</p>
<p><b>7 Compliance statement:</b></p> <ul style="list-style-type: none"> <li>a. Confirmation that the proposed service area does not have terrestrial based broadband infrastructure capable of providing broadband service and that there are no known current approved plans to do so;</li> <li>b. The proposed infrastructure or technology has been used in service, and has successfully provided the relevant range of services;</li> <li>c. Set out the terrestrial based broadband access speed capability of the proposed infrastructure, i.e. the coverage at 1Mbps and 5Mbps. For satellite based service set out the proposed coverage and access speed capabilities. (The speed objective may be revised in light of discussion paper submissions);</li> <li>d. The relevant infrastructure will be installed and maintained fit for purpose to standards consistent with international best practice;</li> <li>e. Where relevant, network interconnection and service interoperability will be supported to standards consistent with international best practice;</li> <li>f. Whether or not access to the infrastructure for which seed funding is sought will be offered on an open access and non-discriminatory basis to other parties (subject to availability of capacity).</li> </ul>	<p>Confirm at EOI stage</p> <p>Certify compliance at Final stage</p>

## Appendix 2: Rural Area Population Statistics

Statistics New Zealand defines four categories of rural areas. Using this definition, approximately 14% of New Zealand's population live in rural areas. The four rural area categories and the comparative population percentage and density statistics are set out below:

- ★ Rural areas with high urban influence. Rural areas that form a transition between the main urban areas and rural areas. A significant proportion of the resident employed population work in a main urban area. ~18% of total rural population, density ~12.9 people per square kilometre;
- ★ Rural areas with moderate urban influence. Rural areas with a significant, but not exclusively, main urban area influence. Generally, a large percentage of the resident employed population works in a minor or secondary urban area. ~26% of total rural population, density ~6.5 people per square kilometre;
- ★ Rural area with low urban influence. Rural areas with a strong rural focus. The majority of the population in these areas work in a rural area. ~42% of total rural population, density ~2.6 people per square kilometre;
- ★ Highly rural/remote area. Rural areas where there is minimal dependence on urban areas in terms of employment, or where there is a very small employed population. ~14% of total rural population, density ~0.5 people per square kilometre.

In practice the Broadband Investment Fund qualifying criteria in rural areas mainly relates to rural areas with low urban influence and highly rural/remote areas.

## Submissions

Submissions must be in writing and should be sent electronically to [broadband.investment@med.govt.nz](mailto:broadband.investment@med.govt.nz), or by mail to:

Broadband Investment Fund submission  
ICT Regulatory Team  
Ministry of Economic Development  
PO Box 1473  
Wellington

Submissions close at **5.00 pm, 30 June 2008**.