

## **Steven Joyce**

29 September, 2009

# **Government releases coverage and funding plan for rural telecommunications**

The government has today released its coverage and funding plans for rural telecommunications.

Communications and Information Technology Minister Steven Joyce today released two proposals for public comment. These proposals focus on progressing the rural fast broadband initiative and reforming the Telecommunications Service Obligations (TSO) levy.

Mr Joyce says delivering fast broadband to rural communities is a priority for the government.

"We're proposing to fund the \$300 million rural initiative through a combination of direct government funding and revenue from a more transparent and effective industry levy than the current TSO levy."

The government will provide a direct contribution of \$48 million and further interim funding of up to \$52 million. The remaining funding will be sourced by replacing the existing TSO industry funding with a more transparent contestable industry-wide mechanism that focuses on developing rural telecommunications.

Currently Telecom receives approximately \$70 million per annum largely to compensate it for supplying local service to rural customers. This money is sourced from the industry via the TSO levy which is paid by market participants (including Telecom which contributes approximately 70%) on a market share basis.

Mr Joyce says he is concerned by the lack of transparency around where this money is spent and whether rural customers are benefiting from it.

"The existing TSO levy has been in place since 2001 and has been a source of considerable controversy within the industry. A recent review of the TSO had identified that the current methodology for assessing how much the TSO commitment was costing Telecom a year was flawed.

"I want to stress that changes to the TSO levy would not affect the TSO obligation, which includes free local calls. The idea is not even on the table. Likewise, there are no plans to further loosen the rules around foreign ownership of Telecom."

The current TSO levy methodology counts the costs Telecom incurs but does not include the full range of benefits Telecom derives from the TSO.

The government is proposing to change the methodology for how much Telecom is compensated for uneconomic customers. By counting both the costs and the benefits of the TSO it is likely that the TSO levy will reduce to zero for the foreseeable future."

The new telecommunications development levy to replace the TSO levy would look to recover around \$50 million per annum over the next six years - about \$20 million less than is currently the case.

"When the government tenders for the provision of rural broadband it will be an open and competitive process, with full transparency on where the money is spent," says Mr Joyce.

The discussion documents setting out the details of the government's rural broadband initiative and a proposed reform of the TSO, including the proposal to establish a telecommunications development levy, are available at [www.med.govt.nz/rural-broadband](http://www.med.govt.nz/rural-broadband) and [www.med.govt.nz/tso](http://www.med.govt.nz/tso).

Submissions on both papers close at 5.00pm on Friday 30 October 2009.

## **Question and Answers**

### **How will the Rural Broadband Initiative be funded?**

The government is proposing that the \$300 million initiative will be funded over six years, by a combination of direct government funding and levy contributions. This will be supplemented by revenue generated by schools' demand and by industry and rural community contributions.

The government recognises the need to accelerate investment in the rural telecommunications network and therefore will front-load spending in the early years of the Rural Broadband Initiative. In order to achieve this, besides the \$48 million already appropriated in Budget 09, the government will temporarily use up to \$52 million of funding currently appropriated for the urban broadband initiative to increase the amount of funds initially available for rural broadband. The additional \$52 million will be reimbursed in later years from the proposed levy. This will not decrease the funds available for the urban broadband initiative.

### **Does the funding cover the ongoing costs for fast broadband connections?**

Schools and other rural users connected to the broadband hubs established under this initiative will pay service charges for their connections in a similar way to their urban counterparts.

### **Why is the Government proposing to use industry levy revenue for funding the Rural Broadband Initiative?**

The Local Service TSO is largely intended to ensure the availability of ordinary telephone service in rural New Zealand. The Government considers it appropriate to consult on whether there should be some rebalancing in how levy funding is made available to enable wider subsidy funding of telecommunications, including rural

broadband. This is consistent with the approaches taken in some international jurisdictions where non-commercial rural fast broadband development is supported by an industry levy.

**How much levy funding will be allocated to the Rural Broadband Initiative?**

After deducting TSO charges and grants to improve the emergency call service system, the annual levy revenue would be available to be allocated as competitive grants to assist financing the deployment of rural telecommunications infrastructure.

If the levy is set at \$50 million for six years, it is expected that approximately \$42 million per annum (\$252 million total) would be available for the Rural Broadband Initiative.

**Will line rentals increase as a result of the proposed levy?**

The proposed new Levy would be set at a level no higher than the equivalent amount for all existing TSO levies currently. Therefore the Government considers that there should not be a detrimental impact on services and prices to telecommunications users.

**What TSO reforms are proposed?**

Reform is proposed for how TSO charges are arrived at to compensate Telecom for supplying local telephone service in commercially non-viable areas.

Reform of levy arrangements for subsidising telecommunications is proposed with the introduction of a new consolidated industry levy that will collect funding to pay all TSO charges (including any TSO charges paid to Telecom) and enable contestable grants for the deployment of rural telecommunications infrastructure.

**Will broadband requirements be included in the Local Service TSO?**

It is not proposed that broadband service be included in TSO Local Service requirements. The government's proposed option for funding the rural broadband initiative is to allocate some subsidy funding from revenue collected by the new consolidated industry levy.

**Does the Government support toll free local calling continuing to be a TSO requirement?**

The government recognises the importance of the TSO as a mechanism to assure the affordability and availability of essential telecommunications services. The government is committed to the option of toll free local calling as a feature of any TSO for local residential telephone service