

eir Submission to the Oireachtas Committee on Communications, Climate Action and Environment

Re: *“An investigation to examine the National Broadband Plan process thus far and how best to proceed and the best means to roll out rural broadband.”*

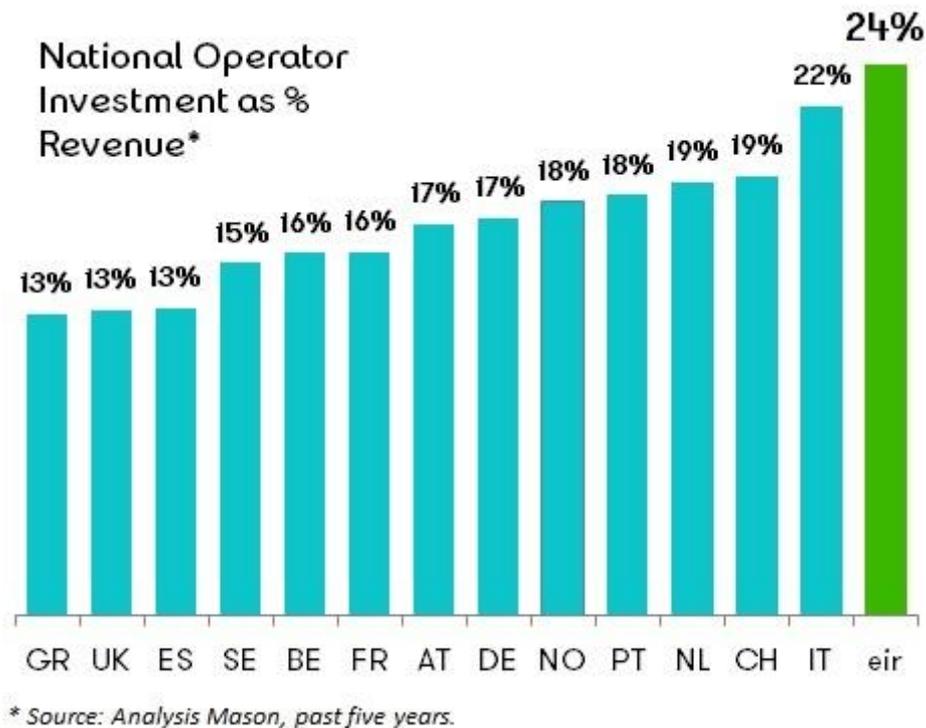
Tuesday, June 25th 2019

Introduction

I would like to thank the committee for inviting eir to attend today’s meeting to discuss the National Broadband Plan. I am joined by Edward Storey, eir’s Director of Strategy and Corporate Communications.

I don’t propose to take members through a history of eir – but just to outline that eir is the principal provider of fixed-line and mobile telecoms services in Ireland. We have approximately two million customers and operate the most extensive network in the country. open eir is the largest wholesale operator in the country, providing products and services to over 40 wholesale customers and more than 400,000 end users. We are also a major contributor to the economy, spending over €1 billion annually.

There is often much public commentary or speculation on eir’s investment, and I will turn to that shortly – but I believe it is important that facts are not overlooked and that the Committee is made aware that over the last five years eir has invested more in our network than any other telecoms operator in Europe relative to its size – (this is illustrated in the accompanying graphic).



eir's investment in rural Ireland and rollout of Commitment Agreement

In its investigation of NBP, the Committee has heard opinions from multiple witnesses about eir's investment of €250m in rural Ireland. This relates to the deployment of high-speed gigabit fibre technology passed 300,000 rural premises with no state subsidy or taxpayer support.

Today we have passed more rural premises with high speed fibre broadband than the 300,000 originally planned and we expect to pass approximately 340,000 premises when we close out the programme this summer. This was and is a significant private investment in rural Ireland and as someone involved at the beginning of this investment I am very proud of the work done by the eir team in every county in Ireland to bring FTTH to rural communities.

Let me give you some facts. The investment in the 300k programme investment provided for premises from 885 exchanges. We have rolled out over 27,000 kilometres of new fibre, replacing 69,000 poles along the way, and installing 110,000 4-port splitters, the black box you see on many poles now in rural Ireland. Beyond that we have had to upgrade 202 exchanges with fibre backhaul.

There are a number of myths and misrepresentations on the record about this investment and I want to address some of them here today.

At the time eir was deciding the next phase of our investment, we had completed a considerable investment in FTTC – this is fibre to the cabinet, bringing fibre technology

further out into the regions, into towns and villages. FTTH, fibre to the home, was a natural follow-on from this and to this end we publicly announced our intention to extend FTTH into the Rural footprint **in 2015**.

It is often overlooked that the Department at that time asked **all operators** to detail what their investment plans were for the period ahead. We informed the department about our rural FTTH plans and ultimately eir was **the only operator** to enter into a Commitment Agreement in respect of this investment and we will have passed 340,000 premises with high speed fibre before an NBP contract is signed.

Removing these 300,000 premises from the Intervention Area had two impacts on the NBP subsidy: it removed the potential revenue from those customers which drove the subsidy up; but it also removed the capital costs associated with passing and connecting those homes with fibre, which drove the subsidy down.

This Committee has heard much about the former from previous witnesses, but less attention has been paid the latter and the question of the net impact of both on the subsidy has not been addressed at all. Helpfully, the KPMG Single Bidder Solution Assessment report answers that for us, on page 37, when they state that budget model predicted in April 2017 a €787m subsidy, which was after the 300k were removed from the NBP. This is lower than the subsidy projections of up to €1bn reported in the press as early as 2015.

We believe that that the removal of the 300k should have led to a reduction in the overall subsidy for the NBP and this appears to have been confirmed by KPMG. Our fibre network in rural Ireland was built with the specific intention, and at an additional cost to eir, so as to allow the eventual NBP winner to share the fibre in order to traverse the 300k region. It now appears that the decision taken by the bidder not to re-use this existing fibre infrastructure, but instead to duplicate and overbuild our fibre across the 300k, has driven up the costs and associated subsidy.

We have included in our submission a sample map (Appendix 1) to demonstrate how the 300k FTTH network was rolled out and we are happy to discuss the map in detail if members feel it is of benefit. In designing the 300k we firmly believed we were assisting the future NBP, when we took the decision to terminate the 300k ribbon with a more expensive termination unit that would have allowed any NBP to connect into and fully utilise the asset deployed.

It is important to note that while we were able to pass these 300k premises commercially, our knowledge and experience of the NBP process suggests that the extra costs and complexities of the NBP contract mean that they would have required subsidy to pass if they had remained in the Intervention Area.

Infrastructure access

On the issue of network access – there has been much public commentary and debate about the potential revenues that eir might receive for the rental of its poles and ducts.

eir's prices are regulated, they are published and based upon a modest return on the significant cost of the 1,000 plus engineers who work all year round in all weathers to maintain eir's network and replace poles. eir's investment to support the rollout of the NBP could be as high as €200m in the early years and €900m over the life of the plan.

It is important to note that this is not a quick return for eir. In the first several years of the programme eir will be making significant capital investment to make ready the infrastructure for NBI. As such we are taking on significant risk and operating at a loss for the term of the actual rollout phase. Nor does this represent incremental revenue to our existing revenue from our copper network, since this network will be decommissioned after fibre is deployed, and so the rental is replacement revenue to fund the cost of maintaining the poles and ducts.

We would also like to remind the Committee that eir is not a monopoly provider of network infrastructure and the State has already made it possible for publicly owned infrastructure to be used to deploy high-speed broadband. The Preferred Bidder has stated its intention to use ESB and other infrastructure where it makes sense for them and I expect they will do so – though, as I have just stated above, rural networks are very expensive to maintain so the Committee should not expect the ESB to be a free option.

Finally on this topic I would also like to point out to the Committee the only cost talked about in detail here in respect of NBI's engagement with third parties is a reported €1bn figure attributed to the cost of accessing the eir and ESB networks, which accounts for only 20% of the overall project costs. The other 80% of the costs to be paid to privately-owned and unregulated project sub-contractors have not been subject to the same scrutiny or attention as that in the case of eir – this is despite the fact that the access cost in respect of eir's network is known, was always known, and is independently regulated by ComReg.

Committee's asks

Turning to the three themes the Committee asked us to reflect on in your correspondence ahead of today –

(i) In respect of the roll-out time:

eir has always been of the view that deploying fibre technology across the entire intervention area is a project of such scale that it was always going to take a number of years to complete – seven years is a challenging but achievable target.

As the only company building fixed fibre infrastructure in rural Ireland we know how long it takes and we know how events outside of your control can delay deployment. We believe our experience from the 300K deployment has been invaluable – to us and to the department. It has allowed officials to prepare for and anticipate issues that are likely to be faced by NBI in their deployment.

(ii) On the issue of value for money:

I do not believe it is appropriate for eir to make determinations on what is or is not good value for money for the taxpayer in respect of NBP. While there may not be a commercial case for fibre to every home, there may well be a case for society as a whole and this is a question for government.

However, it is clear to us that we can build rural fibre infrastructure at a lower cost than is currently envisaged in the plans as outlined at the same levels of quality and service as the 300k. There is no secret in that. eir could complete the NBP, based on eir's approach to the 300k rural rollout, for under €1bn. At the time of eir's departure from the bid process my predecessor Richard Moat wrote to then Minister Naughten outlining our reasons for leaving the process but also offering to discuss with the department alternative ways of achieving the government's stated policy objectives.

In terms of keeping costs down – eir built its rural fibre rollout with the intention of providing access to its 300k fibre. We offered a product that would allow the Preferred Bidder to traverse the 300k area to reach the Intervention Area. The plan as it stands today is not to use this product and instead build fibre alongside parts of the 300K network. The logic for this is not clear to us but it is also not a question for eir.

(iii) On the issue of ownership:

eir does not have a view on the issue of ownership per se as this is a matter for the department however as a former bidder I would say that the ownership of the network at the end of 25 year period would have to be factored into the business cases for any bidder.

Also, as a private company, we at eir believe strongly that the private sector can deliver high quality essential services to customers at a lower price than can be delivered through the public sector. As a regulated entity, we believe that this can be done in a way that opens the market to competition and delivers the lowest cost to society. While the private sector, Gap Funding model has failed to deliver a competitive outcome for the NBP procurement, this need not have been the case had different choices been made along the way.

We believe there are other models and other structures, such as a Universal Service Obligation (USO), that could have delivered high-speed broadband faster and cheaper than the existing process, however we remain ready to support the NBP with our infrastructure, if it is required, whether it be via a private sector or public sector solution.

Conclusion

In conclusion, I would like to say to Members – it remains a source of regret for eir, and for me personally, that we ultimately found ourselves in a position where we could no longer remain in the NBP bid process.

Having been personally very close to the process and those dedicated staff, current and former who worked on it, I can assure you it was not a decision taken lightly or in haste. We entered the NBP process in good faith with one result – to win it.

We continue to be engaged with the Preferred Bidder and with the department – and I want to make it clear that we completely support the policy of 100% connectivity for rural Ireland.

Thank you.

Appendix 1

