

**INFORMATION PACKAGE
AND MEDIA RELEASE**

**Independent Review of Persona Communications
Trans Gulf Proposal**

Prepared for:

Government of Newfoundland and Labrador
Department of Innovation Trade and Rural Development
Advanced Technology and Industrial Research Division
2nd Floor, West Block
Confederation Building
St. John's NL A1B 4J6

Attention: Mr. Robert Parsons

Prepared by:

Electronic Warfare Associates-Canada Ltd.
140 Water St., Suite 603
St.-John's, NL A1C 6H6

Executive Summary – Media Release

**Independent Review of Persona Communications
Trans Gulf Proposal**

In June 2006, EWA-Canada Ltd. was contracted to review the overall reasonableness of the proposal made by Persona Communications Inc. for Government to invest in a new fibre optic connection to North American communications networks. The review involved privileged access to proprietary business and technical information that was cooperatively provided by the management of Persona Communications Inc.

Scope:

The review involved the following high-level considerations:

1. A review of Persona/Consortium's business case to determine if the project actually requires \$15M of government capital as a basis for viability.
2. Identification of the high-level project risks which give rise to the need for government capital.
3. A review capital of the project expenditure plans to verify reasonableness.
4. Comment on the valuation of the ownership of dark fiber by the province.
5. A review of the proposed project benefits and the current competitive environment.
6. Comment on the potential competitive environment which may emerge after the project, and the potential effect on prices.
7. Offer an opinion regarding ownership of fibre as a practical safeguard and consideration for government as a long term consideration.

Conclusions:

The high-level conclusions of the review were:

1. There were no major financial or technical shortcomings or omissions in the Persona proposal.
2. The overall cost assumptions used in the business case are reasonable and within the industry norms. The business case provides for a very modest rate of return. The capital costs assumed by Persona to complete the cross gulf connection are consistent with other similar projects (i.e. Iles de la Madeleine project in 2003) and industry norms.

3. An opinion that Persona clearly requires the provincial funds of \$15M to implement the project.
4. The Persona consortium would require \$15M of government funding to ensure that the project is viable (and for example, \$10M would not be sufficient). Other investors considered were the existing MTS Allstream/Rogers/Persona partners, the province, the federal government or their competitor, Aliant.
5. Project risks identified at the time included the fact that Newfoundland geography presents some challenges which may not have been completely considered in the forecasts prepared by Persona. These include rough terrain, new terrain that has never been forged before, and additional costs that may be caused by delays as a result of environmental assessment and rights of way approvals not yet received. So far only limited approvals have been received in Nova Scotia which represents almost half of the overland cable distance. Persona has indicated they intend to contract with local utilities which may mitigate some of the risks. Persona has indicated that they would be fully responsible for any cost overruns and this point should be included in the legal contracts.
6. Depending on the number of strands the government will own and their ultimate use in conjunction with other projects, the government should receive reasonable value for the money, in addition to the economic support benefits and job creation in the industry.
7. The current competitive environment is limited to only one supplier (Aliant) for global infrastructure and as such provides a monopoly to that supplier in certain areas of the island. The increased connectivity to the rest of Canada (and the world) as a result of this contract will increase competition and should reasonably result in better service, reduced costs and increased benefits.
8. Expected benefits of the project include:
 - The ability to attract and retain a skilled labor force to the Province
 - An increased speed of medical consultation with experts residing in other Provinces
 - Fuller participation in academic research efforts
 - Fuller participation in medical research efforts
 - A more competitive environment in the communications industry
 - More efficient pricing of available resources
 - Expanded revenue base for supporting public services
 - Attraction of additional businesses/industries to the Province – e.g. Dell

- Expansion of existing businesses within the Province
- Infrastructure conservation by permitting work to be done closer to home and reducing the Newfoundland diasporas
- Environmental improvements by reducing the need to travel

9. Broadband infrastructure and broadband access are critical to the economic growth and survival of communities in the coming years. This project increases the communications coverage on the island and provides greater global connectivity. This will allow a duopoly of infrastructure with potential for many competitors to participate. It is likely that increased supply of off-island connectivity will put pressure on current pricing structures to be lowered. The government acquiring and maintaining an ownership position in this project should ensure a level playing field for entry of new competitors.

Recommendations:

The review included recommendations to government that:

1. Persona should provide a performance bond to ensure completion and cover any potential cost overruns, and Persona has indicated a willingness to do so.
2. The provincial should own multiple fully redundant strands of fibre across both land and sea routes.
3. The contract with Persona should ensure there is open and unencumbered access to the infrastructure as per Canadian regulations and standards and should provide the government with assured access to the strands that it owns.