Exetel Response to:

ACCC inquiry into NBN access pricing

Discussion paper

October 2019

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13 November 2019

Background

Q1. Are there any other NBN product elements, or features of commercial access agreements not mentioned in Section 2 of the paper, that have a major bearing on basic speed access products and entry level retail plans on the NBN? What are these?

A1. Of key concern to Exetel is the basis on which NBN provides its non-standard pricing constructs/offers, that is, via the WBA3 Discounts, Credits and Rebates List. The offers in the WBA3 Discounts, Credits and Rebates List are subject to rapid introduction and withdrawal with limited/no notice which contributes considerable uncertainty to our business planning processes and the sustainability of end user price offers into the future.

ACCC approach to examining NBN access pricing

Q2. How do you consider the 'no worse off' condition for migration of legacy customers onto the NBN should operate?

A2. NBN RSP's should have wholesale cost constructs that ensure they are able to offer the end user a free/no cost transfer to the NBN, including the cost of a new modem/router suitable for the NBN MTM technology type that is available at the customer premises including the supply of a VoIP fixed line Voice Service without additional end user contractual/term commitment. The NBN RSP should be able to provide the new NBN service with equivalent data allowance and speed to the end user at the same retail price as the legacy service and the NBN RSP should be able to make a higher margin to compensate it for the additional operational cost due to the disturbance caused by the arrival of the NBN.

Q3. Do you consider that price regulation of a basic speed access product would serve as an effective price anchor on higher speed NBN services? If so, for what range of higher speed TC-4 access products would the price terms for a TC-4 12/1 speed access product provide an effective price anchor?

A3. Exetel does not consider that price regulation of a basic speed access product would serve as an effective price anchor on higher speed NBN services. NBN's pricing (discount, credits and rebates) policies to date have been entirely self-serving with the sole focus of achieving their mandated wholesale ARPU of $52. If a basic speed access product has a regulated price applied, NBN will adjust its higher speed NBN services costs higher to ensure it meets its wholesale ARPU target.

Q4. Do you have any comments on the pricing principles proposed by the ACCC for assessing NBN Co's access prices?

A4. Exetel agrees with the following pricing principles proposed by the ACCC for assessing NBN Co's access prices:

End-users should be no worse off as a consequence of migrating to the NBN

Price certainty

Pricing arrangements should not be unduly complex

Prices should promote downstream competition

NBN Co should have the opportunity to recover efficiently incurred costs

Exetel finds the following pricing principles proposed by the ACCC for assessing NBN Co's access prices problematic as they rely on the goodwill of the NBN:

Basic speed access products should act as an anchor

Prices should meet consumer demand

Q5. Do you consider that any other changes to NBN Co's current approach to pricing NBN access services are required to provide pricing certainty for access seekers and to safeguard the interests of end-users?

A5. The only way to achieve the dual objectives of "providing pricing certainty for access seekers" AND "safeguard the interests of end-users" is to mandate a single AVC only price policy from the NBN, removing all usage based charges/risks from the RSP.

NBN access pricing

Q6. Do the pricing features covered in this section represent the key pricing elements bearing on the supply of entry level NBN services to end-users by RSPs?

A6. Yes, the pricing features covered in this section do represent the key pricing elements bearing on the supply of entry level NBN services to end-users by RSPs. A fuller exploration of the RSP's NBN service Transformation Costs and End User Demographics and usage patterns should also be considered to demonstrate the high degree of risk associated in supplying NBN services for the RSP.

Q7. Do the service transfer charges identified in this section represent the key pricing elements bearing on service transfers?

A7. Yes, the service transfer charges identified in this section do represent the key pricing elements bearing on service transfers borne by the RSP. However, as per A6, A fuller exploration of the RSP's NBN service Transformation Costs and End User Demographics and usage patterns should also be considered to demonstrate the high degree of risk associated in supplying NBN services for the RSP.

Product and pricing developments in retail fixed-line broadband markets

Q8. Are there any additional retail pricing and product changes relevant to this inquiry that resulted from NBN Co's product and pricing changes that took effect in 2018?

A8. No, there are no additional retail pricing and product changes relevant to this inquiry that resulted from NBN Co's product and pricing changes that took effect in 2018 except for the rapid and un-expected reversal of NBN Co's decision to remove DBD-R CVC pricing. This decision by NBN Co to extend the DBD-R discount by another eleven months caused severe business uncertainty and the necessity to rapidly and wastefully re-adjust business plans.

As noted in the discussion paper, there is a general and gradual increase in prices being paid by End Users (mainly due to the withdrawal of lower allowance and speed plans) across the market due to increasing End User Data Usage driving higher CVC costs to the RSP that needs to be recovered to ensure continued business viability.

Q9. Are there any further retail pricing and product changes that are being contemplated due to NBN Co's 2018 pricing changes?

A9. No, there are no further retail pricing and product changes that are being contemplated due to NBN Co's 2018 pricing changes. All required retail pricing and product changes have been launched to market several months ago.

Q10. What retail pricing and product changes have you made or are contemplating in response to NBN Co's pricing changes outlined in its second consultation paper?

A10. We may reintroduce NBN services with 25/5 and 12/1 speed tiers, though this is not confirmed.

Considerations for potential regulated NBN access pricing

Q11. Which TC-4 ethernet broadband access service speed tier(s) are most relevant to the objective of providing a smooth migration for all or most consumers?

A11. All TC-4 ethernet broadband access service speed tier(s) are relevant to the objective of providing a smooth migration for all consumers. 12/1 and 25/5 support customers migrating from ADSL2+ services. 25/5 and 50/20 support customers migrating from lower speed HFC services and 100/40 support customers migrating from higher speed HFC services.

CVC requirements on commencement

Q12. What level of CVC dimensioning for the basic broadband access product do you consider is needed to support a smooth transition of ADSL/ADSL2+ customers to the NBN for a retail price point of $60 with unlimited data? Could this same level of provisioning be supported on the ADSL/ADSL2+ network for the same price point?

A12. Exetel believes that 1Mbps of CVC dimensioning is required for the basic broadband access product to support a smooth transition of ADSL/ADSL2+ customers to the NBN for a retail price point of $60 with unlimited data.

Q13. RSPs that are supplying or have previously supplied retail 12/1 speed plans using the NBN, please complete the data request that accompanies this discussion paper.

A13. The data request that accompanies this discussion paper is too onerous to complete.

Q14. RSPs that operate ADSL/ADSL2+ networks, please complete the data request that accompanies this discussion paper.

A14. Exetel does not operate ADSL/ADSL2+ networks, we re-sell Telstra, Optus and AAPT/TPG wholesale ADSL/ADSL2+ networks, because of this and as per A13. we will not complete the data request.

Adjusting CVC requirements to account for growth in traffic

Q15. What rate of indexing of the CVC dimensioning is required on a basic broadband access service for it to continue to provide for a smooth migration over the course of the rollout? Could this same rate of indexing be supported on the ADSL/ADSL2+ network?

A15. A 2% to 2.5% per month rate of indexing of the CVC dimensioning is required on a basic broadband access service for it to continue to provide for a smooth migration over the course of the rollout. This rate of indexing is consistent with the historical rate applied to our ADSL AGVC's.

Q16. How should the required growth in CVC dimensioning be accommodated in developing price related terms for the basic speed access product and does this put the $60 retail price point with unlimited data at risk?

A16. The required growth in CVC dimensioning should be accommodated in the price related terms for the basic speed access product through regular increases in the bundled CVC allowance (or ideally changing the product to an AVC only charge model). Additionally, (on the assumption that NBN does not provide an AVC only charge model) the basic speed access product (12/1 ELB) should be treated like other NBN bundled plans, that is, without the application of a $5.70 excess use penalty charge.

New product and pricing offer, or use of discount notices?

Q17. What do you see as the pros and cons of establishing the price related terms and conditions of access to a basic broadband access product by way of a new product bundle or being implemented by way of a partial waiver/discount?

A17. Ideally, NBN should change its pricing model to an AVC only construct, removing all usage charge risks from the RSP. In the absence of this approach, access to a basic broadband access

product should be provided by way of a new product bundle via the standard NBN price list (with the appropriate CVC inclusion and indexing) – not the Discounts, Credits and Rebates list.

Implications for transformation costs and scale economies

Q18. Will NBN Co's proposed pricing in its second consultation paper allow access seekers to rationalise their CVCs?

A18. NBN Co's proposed pricing in its second consultation paper is targeted at removing the commercial possibility for the RSP to retain two sets of CVC's to cost optimise between the Basic and Bundle pricing constructs. This is targeted by the NBN to corral and trap RSP's into a higher ACPU position over time to meet NBN's wholesale ARPU targets.

Additionally, the per POI/CSA allocation and measurement of CVC (no averaging between POI possible) means that the 121 POI/CSA implementation of the NBN is inherently inefficient when compared to the state or national implementation of legacy ADSL networks for resellers such as Exetel. Fortunately, select NBN wholesale aggregators can replicate the efficiency of former legacy networks by charging for NBN service backhaul and CVC at the state or national level enabling scale averaging and concepts such as P95 billing. Something the NBN can't or won't do.

Q19. What further approaches could be considered to facilitate opportunities to reduce transformation costs and/or allow access seekers to exploit scale economies in respect of the basic broadband access product?

A19. The highest driver of Transformation costs relates to the initial connection of the NBN service, through inefficient and unreliable NBN processes and outcomes, a high degree of customer support and the necessitation of new modem/router for the End User in a large percentage of installations. NBN should continue to focus on improving the service activation/transfer process and lowering the RSP's direct NBN costs through an AVC only price construct.

Support for a limited and unlimited quota basic speed retail product

Q20. What is your preferred approach to preserving sufficient flexibility to offer limited quota plans over a basic broadband access product?

A20. Assuming NBN does not introduce an AVC only price construct, the ability to average a generous CVC allocation across all bundle plan services could ensure limited quota plans could be constructed with little risk of excess CVC charges being incurred by the RSP.

Q21. Should this be left to individual dimensioning choices of access seekers acquiring a scalable basic access product or should a separate limited quota access product be developed?

A21. The supply and management of limited quota plans should be left to individual dimensioning choices of access seekers.

Q22. What do you consider to be the level of CVC dimensioning that would support a limited quota, basic speed retail plan?

A22. We consider 750kbps to 1Mbps per AVC to be the appropriate current level of CVC dimensioning that would support a limited quota, basic speed retail plan. This plan/service would have to also include appropriate CVC inclusion indexing to ensure constant retail price stability and RSP margin outcomes.

Allowing access seekers to achieve a comparable access cost when supplying basic speed retail plans on the NBN

Q23. Are there any features of NBN Co's new ELB offer that favours some access seekers or business models over others when it is used to supply a basic speed broadband plan? What are these features?

A23. Access seekers who have large bases of voice only customers will benefit the most from NBN Co's new ELB offer. The new ELB offer is effectively a large gift to Telstra to encourage more migrations of their on-net high margin copper/PSTN customers to the lower margin NBN.

Application to NBN Co's wireless access networks

Q24. What approach do you consider should be adopted in respect of basic broadband access products that are supplied over NBN Co's fixed wireless or satellite access technologies?

A24. NBN should offer the 12/1 ELB on all access technologies. The exclusion from fixed wireless and satellite from 12/1 ELB supply is discriminatory and contrary to NBN's long term interest.

Q25. Are RSPs likely to differentiate their prices based on access technology if the Entry Level Bundle is not available over Fixed Wireless networks?

A25. RSP's will probably cease supplying the 12/1 service on fixed wireless and upgrade their customers to the 25/5 speed tier and charge accordingly.

Implications for competing networks

Q26. Do you consider that NBN Co implementing its revised ELB offer to support a basic speed broadband product would likely have the effect of inhibiting efficient competition?

A26. Exetel does not believe NBN Co implementing its revised ELB offer to support a basic speed broadband product would likely have the effect of inhibiting efficient competition. Alternative Fibre network providers and 3/4/5G mobile networks efficiently provide viable alternatives at cheaper

prices with higher data inclusions today when compared to the "$60 Unlimited 12/1 ELB based service".

Implications for access revenues and costs

Q27. What changes, if any, should we make to this framework for assessing the likely effect of price related terms and conditions for a basic broadband access product on NBN Co's revenues? What changes to input assumptions should we make?

A27. The ACCC has covered all aspects adequately.

Q28. For RSPs supplying a basic broadband access product on the NBN, please complete the migration forecasts contained within the data request accompanying this discussion paper.

A28. As per A13.

Q29. How material a contribution to network provisioning costs would growth in CVC dimensioning for basic broadband access services make?

A29. Negligible, assuming appropriate indexing is supplied by NBN for the bundled CVC inclusion.

Service transfer and transfer reversal charges

Q30. What level of charges do you consider reasonable for these service transfer and reversal charges? Should these be implemented by way of a price change or via a discount?

A30. Exetel considers $0.00 a reasonable charge for the service transfer and reversal charges. This represents a true indication of NBN's costs and will favour the challenger access seekers. This should these be implemented by way of a permanent price change.