Launtel Public Response to Floor and Ceiling – Modified Pricing Options

Jul 21, 2023

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Executive Summary

We have been invited to submit a response to NBN's submission "Floor and Ceiling – Modified Pricing Options".

This submission covers six(6) main points, outlined in Summary and then in Detail later on.

- **Floor and Ceiling - Modified Pricing Options**
- **SAU Implementation - Timing**
- **Pricing quirk - Moving from Included CVC to Paying Overage**
- **NNI - Payment Plan**
- **Price of Higher Upload Plans**
- **Compensation Payments due to Delay in SAU Implementation**

Responses in Summary

Floor and Ceiling - Modified Pricing Options (Summary)

We mostly support NBN's proposed changes to the 50/20 speed tier pricing and the introduction of a 'floor and ceiling' approach to limit the price variation for this service.

We believe that the three options outlined for the various scenarios of AVC and Overage Amount & Price, although interesting, presented somewhat of a Hobsons choice.
The difference between the options is minimal and although each option will impact each business in different ways, the differences are minimal and will depend on their stage of growth and their client demographic.

For the record, Launtel would prefer that Option 2 be adopted.
Launtel would also remind the NBN and the ACCC that this support is on the proviso that the 700Mbps overage waiver on a per POI basis is retained as outlined in the 8th November 2022 Consultation Paper.

SAU Implementation - Timing (Summary)

Finally we are extremely keen to bring this SAU process to a close within this calendar year. As outlined in the recent roundtable, the continued bandwidth utilisation of EUs is impacting businesses large and small within this industry.

For the large RSPs, they are continuing to pay higher and higher overage fees in an environment where the access provider is actively working toward a goal of removing overage charges. This situation will continue to compound month over month until this SAU is passed, increasing price uncertainty for large RSPs.

For the smaller RSPs the uncertainty is just as palpable and is a result of average client bandwidth growth combined with growth in the number of clients and the unique position we have in the marketplace in that we provision in excess of 8Mbps of network for each client, well above the industry average.

The industry, the ACCC and the NBN are all very close to agreement on most matters. The biggest problem now is the additional time required to get the SAU approved and implemented. Launtel would like this achieved sooner rather than later.

Pricing quirk - Moving from Included CVC to Paying Overage (Summary)

Launtel is in the process of moving many of its POI from within the overage waiver of 1,500Mbps to greater than 1,500Mbps in CVC and this process has exposed some very strange scenarios with NBN pricing.

This scenario has resulted in Launtel facing a bill of approx $9,000 per month in overage ($60 per client per month) as we move through the 1,500Mbps threshold and is obviously unworkable.

We will outline this scenario in more detail in the ‘details’ section, but it highlights to us that continued delays in the SAU implementation will result in dramatically escalating costs for Launtel. As the new SAU proposals will largely remove this scenario due to the ‘no CVC limitation’ on higher speed tiers, Launtel is faced with the only option of placing a ‘stop sell’ on over 30% of POI nationally with this number increasing by 1-2 per week.

However, NBN indicated during the recent roundtable that the earliest that the SAU variation could be implemented was December this year with other dates in March 2024 and later also flagged as possible implementation dates.

All of these timelines will result in Launtel expanding its list of ‘stop sell’ POIs around the country due to this pricing issue and we propose that some interim measures be implemented immediately to ensure a glide path for all RSPs into the new SAU.

This glide path would ensure coverage for small RSPs’ whilst the SAU is in pre implementation and would allow them to grow through this unintended accounting glitch that is impacting our business.

Our recommendation is an increase of the free CVC included when offering services on a POI from 1,500 to 2,500Mbps.

The current level of 1,500Mbps was introduced at the same time as the 1,000/50 residential service to allow small RSPs to offer this service in a commercially suitable manner whilst also offering the EU a ‘Gig’ experience.

NNI - Payment Plan (Summary)

Launtel is appreciative of the proposed steps forward on NNI prices and the price reductions/rebates outlined in the recent NBN submission. However, there has been provision in the past to allow RSPs a payment plan over four years to make instalment payments.

Launtel feels that these past 'payment plan' provisions represent an unlevel playing field as they were only available for a short period of time and therefore only available to RSPs that were in the market for those NNIs at the time.

We would like to see a reinstatement of NNI payment plans in conjunction with the discounts/rebates outlined in the past SAU submission.

Price of Higher Upload Plans (Summary)

Launtel is a long time supporter of the original speed tiers for above 100Mbps. Although they are not considered a residential type service, Launtel has found a demographic client type that values the higher upload speeds associated with these plans.

We would like to see some consideration given to the very high pricing of the "legacy" higher speed tiers (250/100, 500/200, 1,000/400), we feel this is an untapped market that the entire industry is missing out on.

Compensation Payments due to Delay in SAU Implementation (Summary)

Finally we would like to address the division of the $12m in compensation.

We would like to see a much higher minimum threshold - around $75,000.

As a small RSP we have significant costs around this SAU process that we have had to absorb (the above issue being just one) - these costs are not reflected in the number of services we have.

Response - In detail.

Floor and Ceiling - Modified Pricing Options (Detail)

As stated in previous responses we support NBN's overall proposal to introduce a floor/ceiling approach to the lower than 100Mbps speed tiers.

As part of that proposal we have been asked to select which of the three options will work best for us. Given that currently we are expecting to still be able to access a 700Mbps overage waiver per CSA, we are not expecting to pay much overage in the short term. So from our selfish point of view Option 1 would make the most sense.

However at some point we will start to exceed the overage waiver and we also believe that as an overall industry we would like to see more bandwidth provided at a cheaper price, so for that reason we prefer Option 2.

SAU Implementation - Timing (Detail)

Launtel has a large objection with the bloated timeline of the SAU process and the ever growing timeline it is taking to reach a conclusion.

As expressed by several telcos at the Roundtable on the 14th of July 2023, the process is now into its 30th month with at least 6 more months to go.

The delays are starting to have a material impact on the commercials around providing services over the NBN access network, increasing the bandwidth utilisation payments being sent to the NBN in an environment where NBN states that they want to reduce these payments, eventually to zero.

These delays are therefore having the opposite effect to their intended end goal and are increasing price uncertainty for retailers and end users as a result.

The impact of these delays is different for each retailer, but we’ll talk about Launtels experience in detail and outline our recommendations for the interim period whilst the SAU moves toward implementation.

Pricing quirk - Moving from Included CVC to Paying Overage (Detail)

Launtels experience has highlighted a weird quirk in the way NBN charges overage for RSPs that are moving from the 1,500Mbps Free CVC inclusion zone into the paid overage zone. **This pricing quirk is not present in the pricing models of other access providers and has been admitted to being an oversight in the terminology from people within NBN.** For these two reasons alone, we believe it should be a simple measure to put in immediate terms to have this billing method rectified and in line with industry norms.

The quirk is also more pronounced for Launtel than it may be for other providers due to our very high proportion of gig services AND the amount of bandwidth we provide to our clients.

As an example, we generally wish to start buying overage on a POI once we hit about 150 - 180 clients.

Normal procedure for this process with **other access providers** is that the 1,500 free CVC amount remains and the RSP purchases the additional bandwidth that they require. So a move from providing 1,500 Mbps of CVC to 1,600 Mbps of CVC would result in 100Mbps being purchased.
An additional 100 Mbps x $8 per Mbps = $800 invoice Very straightforward.

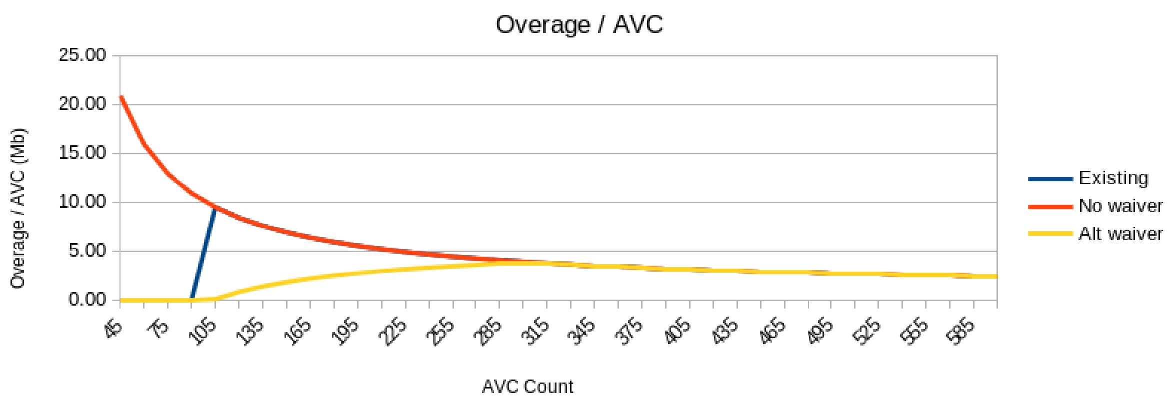
However, NBN performs this calculation very differently.

NBN instead removes the 1,500 Mbps of free CVC altogether and immediately allocates the included bandwidth for the AVC's you have on that POI.
So a move to 1,600 Mbps means that the additional CVC that has to be purchased is calculated by looking at the AVCs (and associated bundled CVC) that you already purchase. This could be in the order of 600Mbps on a customer base of 150 clients.
The calculation then is 1,600 Mbps (new requirement) minus 600 Mbps (bundled inclusions) = 1,000 Mbps CVC x $8 per Mbps = $8,000.

The following chart outlines this situation;

- Yellow outlines the overage paid with other access providers
- Blue outlines the overage costs under the current scenario with NBN
- Red outlines what the overage would be if there was no free inclusion

X Axis - Increasing number of clients
Y Axis - The cost of Bandwidth per customer (on average)



This is on each and every POI that Launtel wish to grow beyond 150 clients on.

If we were to burst through the 1,500 level on all POI immediately and move to 1,600, the cost would be in the order of an additional $13 Million dollars per year.

Due to the situation being extremely uncommercial at best and anti competitive at worst, Launtel have decided to not pay this additional fee.

We have instead stopped taking on new clients on these POI as they approach levels we feel that impacts user experience. The number of POI that fall into this category has now grown to 40 POI across Australia with an additional 1-2 per week.

This problem will disappear once the SAU comes into effect as the plans we sell will come without CVC limitations.

Until then, we have to deal with the limitations for the ‘unknown period of time until the new SAU is implemented’.

Our suggested solution to this dilemma is to increase the free CVC inclusion for POI from 1,500 to 2,500 Mbps.

In the Launtel (and other small RSPs that are moving into the territory of hundreds of clients on a POI) situation, this would result in us resuming growth on over a third of POI around Australia and offering our high speed services to more customers in a level playing field with other providers.

It would also provide a glide path that is consistent with the intentions of the new bandwidth system that has been proposed.

It would also remove considerable price uncertainty that Launtel currently faces.

Launtel also feels that this quirk impacts the RSPs that are trying to get the best out of the NBN network worse than other RSPs.

The more CVC you provision per customer, this more this quirk impacts you.

We recognise that we may be one of few RSPs that are affected by this - however this is because most RSPs that buy services directly from NBN (i.e. no via aggregators) are either smaller than us (haven’t yet hit the issue) or are significantly bigger than us (are well past the issue). We just happen to be at exactly the wrong spot on our growth curve.

We understand our account management team at NBN are lobbying within NBN for some relief from this issue - and understand we are not looking for special treatment here - just to not be singled out as the only RSP that gets to pay this massive extra CVC impost until the new SAU. Unfortunately because it is deemed to be a “small issue” (aren’t all small RSPs problems small issues?), there appears to be significant pushback.

NNI - Payment Plan (Detail) and Interlink with SAU Timing

Launtel is also faced with delayed expansion plans should the SAU implementation be delayed. On NNI fees in particular, any move on upgrading NNIs to 10G now would see Launtel paying a premium of 66% over and above what we would be paying once the SAU is implemented.

This scenario raises to an over pay of $234,000 if all POI were upgraded now rather than after the implementation of the SAU.

The delays in implementation are creating substantial issues with planning and business expansion.

A plan that allows provisions to reduce this uncertainty would be welcome not just to Launtel, but many other access seekers.

We look forward to further discussions and feedback as we near a close on the approval and implementation of this SAU.

There is no commercial-in-confidence content in the above and consent to it’s public release.

Regards,

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And

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