Agenda – NBN Product and Pricing Working Group

Meeting date	**2:30pm to 4.30pm, Thursday 25 November 2021**
Location	Via Teams

#	**Item**
1	Attendance and apologies
2	Review of actions from last meeting
3	NBN Co timetable for refreshing bundled offers under WBA4 while the SAU is being considered
4	Papers on product and pricing construct, including FTTN measures - updates from authors
5	NBN Co consideration of proposed pricing constructs, form of regulatory control and treatment of discounts
6	NBN Co response to feedback on incremental costs of adding network capacity and how this relates to total cost to supply
7	NBN Co cost estimates of various low income/use product options and outline pre-paid on/off product
8	Any further discussion of international comparators
9	Next steps and closing remarks

Meeting summary

The Chair welcomed attendees and thanked the working groups for their contributions over the course of the meetings. The Chair noted that although it was the last meeting of this working group the ACCC was open to continue its engagement with stakeholders on the issues raised. The Chair advised that the next process step is for the ACCC to prepare a summary report that will document the views expressed and positions reached in the working groups.

The working group first discussed the arrangements for refreshed price terms to be provided under WBA4. NBN Co is intending to refresh the pricing and CVC inclusions roadmap in April 2022 and will consult with its customers leading up to this. More significant changes as have been discussed in the working group are being considered as part of the SAU and NBN Co will outline how it could implement these commercially at a later juncture.

Authors of the non-volumetric and volumetric product and price construct papers provided a recap of their papers and talked to the feedback received.

In relation to the non-volumetric paper, it was noted that although the thrust of the paper was a zero price for CVC, other important proposals were that AVC prices should reflect actual line speed capability (which is relevant particularly to FTTN) and that there should be a cheap basic product for non-broadband (voiceband) connectivity. The paper had also proposed controls on the amount by which charges could increase between speed tiers, albeit in discussion some participants noted that this may be of a lower order of importance compared to the other proposals raised in the paper.

Regarding the volumetric paper, the author recapped the benefits of the proposed dimension-based pricing formulation as supporting RSPs with diverse CVC requirements, and as a mechanism to assist with better anticipating and managing future costs. The author noted that little feedback had been received on the proposal from stakeholders, and that modelling by NBN Co could assist in refining the indicative prices that had been outlined in the paper.

After detailing some high level principles that NBN Co was seeking to achieve, NBN Co outlined its key responses to these papers. In respect to the non-volumetric paper, it indicated that it did not wish to have constraints on pricing relativities between speed tiers; and that it saw a role for a CVC price to recover the costs of incremental data capacity and ensure efficient use of the network. NBN Co also indicated that a CVC price would also support RSPs to continue to supply new or legacy plans that feature data caps. NBN Co advised it was receptive to offering a cheaper low bandwidth product separate to an entry level broadband offer. For the latter offer it said it was considering what speed tier would be appropriate as it was unclear whether 12/1 Mbps was likely to be sufficient in the long term.

In response to the proposals in the volumetric paper, NBN Co said it was concerned that RSPs may not support the dimension-based CVC pricing proposal due to the operational complexity involved in introducing and managing such an arrangement on an ongoing basis. NBN Co noted that there is however potential scope to remove CVC utilisation conditions, accepting that doing so could promote product differentiation, but that customer experience was also a relevant factor should consumers move to plans that do not meet their busy hour needs. NBN Co indicated that its CVC related prices should not be guided only by whether they met the cost recovery rules that had been suggested in the paper as NBN Co saw a broader role for CVC charges.

NBN Co then presented an indicative price construct proposal to the group. The features of this included: AVC only for speed tiers that have highly variable traffic patterns with CVC remaining on lower speed tiers; more frequent formula-based adjustment of CVC inclusions in bundled offers for the product speed tiers which retained CVC as a price element; annual movement allowances for maximum prices based on CPI +/- X regulation on a use it or lose it basis; expansion of AVC only pricing over time; constraints on the use of discounts and rules to transition long term discounts into prices so that annual price movement protections would apply; CVC to be charged on the basis of utilisation rather than provisioned capacity; removal of CVC utilisation caps; provision of a new lower priced voice only offer; repricing the 25/5 Mbps bundle so that it aligned with the 12/1 Mbps bundle.

The working group noted the proposal and requested NBN Co to provide further specification, including by modelling the price outcomes that its suggested features would have delivered over the past two years. There was particular interest in how results may have differed as between capacity-provisioning billing and usage-based billing.

Further detail was provided by NBN Co to the working group about the costs of adding capacity to the NBN in response to queries flowing from an earlier presentation. It was indicated that the modelled costs included network augmentation at bottlenecks only and made allowance for efficiency improvements. The presenters also indicated that a significant proportion of the identified costs related to resolving capacity bottlenecks in localised parts of the access network, rather than the aggregation network. While it was acknowledged that the cost increments were location specific, it was suggested that that location specific pricing could raise equity concerns and it was better to provide an overall price signal for these costs than no signal at all. In discussion a working group member expressed the view that NBN Co needed to factor in willingness to pay in its pricing structure and this could mean that efficient prices might differ from the underlying costs.

Estimates were provided of the net revenue losses (i.e. making allowance for new customers) and additional costs to NBN Co of offering a concessional access product to low income end-customers at two different rebate levels of $20 and $35 a month to enable 25/5 Mbps retail services of $45 and $30 per month respectively to be purchased by low income customers. The working group considered the

modelled amounts to be significant and raised questions as to whether the forgone revenues and costs incurred could be recouped from other NBN services.