

## **Addendum -Analysis of Costs for Small Providers to Provide SBAS Layer 2 Service Australian Competition & Consumer Commission**

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## TABLE OF CONTENTS

Addendum..... 3

## ADDENDUM

The ACCC requested UXC Consulting to carry out an updated analysis of earlier work to assist the ACCC in making a final decision on the small provider exemption for the SBAS FAD.

Further analysis and response from UXC Consulting was sought in relation to the following four issues, shown below in italics.

*Issue 1. Use of a lower CVC price than that UXC used the draft report. The ACCC provided a reference table containing the applicable CVC discounts/prices related to bandwidth purchased per AVC that it was considering using to specify CVC prices for the final decision. .*

UXC Consulting response:

Using the ACCC information provided, UXC determined a revised CVC price of \$14.25 per Mbps per month as opposed to the price of \$17.50 used in the draft report.

The CVC charge is driven from the bandwidth of CVC backhaul required, which equates to the oversubscription number. The number used in the draft report was 22:1 based on discussions with the small providers. At a ratio of 22:1, the revenue per service is reduced by 7% and the overall impact of a reduced CVC charge has only 6% negative impact on the overall profitability. It does not materially affect payback period.

*Issue 2. Consideration of the potential costs diverted management efforts in supplying wholesale services and related obligations.*

UXC Consulting response:

In essence this issue relates to opportunity cost. It is not impact of wages of the executive management team that needs to be considered but the potential financial losses that may occur if the executive management team does not focus wholly on the retail business. This potential impact would be difficult to analyse with any accuracy, as there are too many unknowns.

However it should be noted that the wholesale line of business is a stripped down version of the retail business – less end-user management, much smaller number of direct customers to manage (a handful versus thousands), simplified billing, less product options etc. and hence the actual impact should be lower per dollar of revenue than for a retail business. In addition all of the functions of a wholesale business already exist in the retail business so the diversion of executive management effort whilst not zero would be relatively small.

*Issue 3. Incorporation of the impact of a \$7.10 monthly charge per superfast line (including an administrative charge) to help fund NBN Co's non-commercial wireless and satellite services under the Government's proposed Regional Broadband Scheme (RBS charge) under the assumption that it would not be able to be passed on to customers.*

UXC Consulting response:

In order to consider this particular change we have analysed the combined effect of the change in the CVC charge and RBS charge - they both move profitability in the same direction (they reduce it). The addition of an RBS charge per month is significant, decreasing the profitability by 33%.

Even the conclusions of the initial report do not need to be adjusted -if the exemption limit is a total number of 12,000 service the business is still generating positive cash flow in year two and significant profitability over five years. This contribution means that the business has the funds to operate as wholesale operator on a level playing field with the other providers of SBS and NBN Co.

*Issue 4. Consideration of the impact of different proportions of wholesale to retail customers in determining the exemption threshold*

UXC Consulting response:

The number of services proposed as the exemption threshold relies on the total number of services (both retail and wholesale), which allow the provider to be placed on a level playing field with all providers of SBAS and NBN Co and to be compelled to provide SBAS compliant wholesale services.

The actual number of wholesale services that are taken up relative to the number of retail services is not relevant to this threshold, as a small operator with 12,000 services has the opportunity to be significantly profitable if all of those services are wholesale, and it is assumed that they would be even more profitable if they were delivering some of those services retail. In addition if a retailer hits a threshold it is likely that there is a prima facie case that there is in fact significant opportunity for other RSPs.

## Conclusion

The conclusion of the draft paper was that if a small provider had 12,000, or more, either retail or wholesale broadband services then the cost for them to deliver SBAS services would not be onerous. The changes outlined above do impact the profitability somewhat, however the conclusion remains unchanged.