



Submission by TPG Telecom Limited (November 2019)

to

*Australian Competition and Consumer Commission (ACCC)
ACCC inquiry into NBN access pricing Position paper (October 2019)*

In summary, the TPG Telecom Limited group of companies (TPG) considers that it is critical for consumers that there be a low cost entry level bundle that gives them a close approximation to the non-NBN broadband services that have been available at approximately the same price. TPG submits that most consumers have been using ADSL2+ services that offer effectively unlimited downloads at speeds that are between 12 mbps and 20 mbps and have been paying \$59.99 per month. As a result, the migration to an NBN12 bundle is in fact making them "worse off".

TPG submits that in order to provide a close approximation to those services, there should be a wholesale cost that, for a 25 Mbps service, is sub \$30 per month including 1.5 mbps of CVC.

TPG responds to the questions in the above referenced ACCC Position Paper as follows:

1. 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?

We consider that there are no other significant NBN product elements or features of commercial access agreements that have a major bearing on basic speed access products. There are other factors we would mention that do have an impact on costs of supply.

As it stands, the burden of regulatory cost associated with the migration from ADSL to NBN is being borne by RSPs. There are many issues that arise that are substantially caused by the NBN. Some examples include: the NBN missing appointments; the NBN selling to RSPs a speed tier but delivering a slower speed; the NBN advising RSPs that particular address is ready for service when it is not. RSPs bear the greater proportion of the costs of managing these issues, such as by supplying interim services, not being able to charge the consumer but still paying the NBN for non-supplied services, complaints and TIO management, and simple reputational damage that is undeserved.

Another issue affecting the cost is the non-parallel migration from DSL or PSTN to NBN copper based (e.g., FTTC/N/B) where the transfer goes wrong because of NBN issues, the RSP bears the cost of providing the interim service. It is difficult or impossible to return to the legacy so an interim service (as required by ACMA) is expensive to provide.

These costs are real and have an impact on RSPs ability to supply entry level retail plans.

ACCC approach to examining NBN access pricing

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

TPG considers that "no worse off" means that consumers should be able to get a close approximation to the speeds and download capacities that were available to them using the relatively ubiquitous ADSL2+ networks.

The amount of download quota that has been available to ADSL2+ has been unlimited for a number of years. Consumers will not move comfortably back to quota-based plans. The speeds that have been available to consumers have ranged:

- For ADSL2+ customers, speeds have been close to 20Mbps for the bulk of customers.
- For HFC customers, Telstra has effectively made very high speeds available to consumers making an NBN 100Mbps service become a step down for many consumers. However, even prior to Telstra recent policy, HFC consumers obtained speeds in excess of 30Mbps.

In TPG's view, "no worse off" should be understood to be that unlimited data is available at greater than 20Mbps download speed.

TPG also considers that NBN Services will be perceived as "worse" than pre-NBN network services because of the following:

- NBN's HFC deployment has no power backup built into the network (note, this is not a reference to power in consumer's premises but rather power to NBN equipment in the HFC network).
- The CVC commercial construct makes an unlimited data offering much more difficult for RSPs to offer than when dark fibre backhaul could be used to remove much of the variable cost associated with end user supply.
- The inability of an RSP to "see into" the network so as to usefully troubleshoot difficulties with voice and data services makes the NBN "worse" than pre-existing networks. A simple MLT test facility for copper based NBN services would enable RSP engineers to line test a service and would make the NBN network more aligned to the way they were before NBN.
- The NBN's policy of charging home owners for trenching to install a new NBN service is worse than what was occurring with ADSL.

3. 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?

Yes. TPG considers that NBN25 and NBN50 are most likely to be price anchored by an ELB price. Those prices are then likely to anchor NBN100 services but to a lesser extent particularly because the copper based NBN services are less likely to offer a reliable 100mbps service.

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

We agree generally with the principles with the following comment. TPG considers that the ACCC should take into account in its pricing principles that RSPs should be able to make a reasonable commercial return when determining the wholesale costs that they should bear in order to achieve a position where end user's are "no worse off". We submit that the ACCC should take into account the following analysis:

- As stated, entry level unlimited broadband retail pricing for DSL has historically been \$59.99 (an ex GST ARPU of \$54.5).
- For this price point to continue to be sustainable for RSPs into the future, NBN wholesale pricing for the ELB should be set at a level that allows RSPs to make a commercially sound return.
- Until NBN's new ELB was recently introduced, a \$59.99 retail price point allowed TPG to only just break-even at an EBITDA level:
 - o At 1.25Mbps average usage the NBN wholesale cost was \$40.9, giving a gross margin contribution of \$13.6.
 - o TPG's other monthly operating costs per subscriber (even ignoring capex investment) are approximately [CIC] [REDACTED] [CIC] per subscriber (refer to sheet 3 of the excel file we have submitted responding to the ACCC's data request).
- Under the new ELB, there is a reduction in NBN wholesale cost such that at 1.25Mbps per customer, the wholesale cost is now \$37, giving a gross margin contribution of \$17.5 at the \$54.5 ARPU.
- But after other operating costs of [CIC] [REDACTED] [CIC] per subscriber, TPG's EBITDA per subscriber under the new ELB is still only [CIC] [REDACTED] [CIC], an EBITDA margin of only [CIC] [REDACTED] [CIC]%.
 - That percentage EBITDA margin cannot be said to be a commercial return that would allow the \$59.99 retail price point to be sustainable long-term.
 - TPG submits that the ELB wholesale price point should be a maximum of \$30 with 1.5Mbps of included CVC.

5. 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?

We have been seriously concerned about the NBN current approach to pricing which has required RSPs to take significant commercial risks without certainty as to future costs. We consider that the process that the ACCC has recently employed to determine pricing for fixed line access has been better in terms of providing price certainty. Pricing should be fixed for all players for a fixed period.

The discounting model employed by NBN is unattractive. The commercial wedges that the NBN has used to achieve their particular outcomes (for example, making a discount disappear in certain events that might be outside of an RSPs control) have been unfair. That strategy produces cost uncertainty by a mechanism which is largely out of the RSPs control.

TPG considers that CVC capacity should be “pool-able” nationally to give RSPs better ability to control their actual spend.

With pre-NBN networks, for RSPs like TPG who made the investment to build fibre to exchanges, costs were fixed and largely sunk. Consumers wanted that fixed price construct (i.e., unlimited downloads). The CVC charge re-introduced variable cost to such RSPs. Consumers do not want to go back to a variable cost internet plan (i.e., usage based). They want a fixed unlimited plan. The only solution is to get rid of the variable component of an RSP’s cost – the CVC – for the basic entry level plan.

NBN access pricing

6. 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?

Yes they are the key pricing elements. However, TPG also identifies lead in and trenching costs that are being levied on owners of some premises.

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

Yes but a matter of some frustration to TPG is that the NBN requires the TPG group to pay a service transfer fee to move a customer from one group member’s CVC/AVC to another group member’s CVC/AVC (which we may do because of a desire to improve operational efficiency but not because the customer has asked to switch providers). We submit that intra-group service transfers should be free.

Product and pricing developments in retail fixed-line broadband markets

8. 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?

Nothing major.

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

Yes – TPG may remove all NBN products in the market that have a monthly recurring charge of less than \$59.99. For example, quota-based plans. Depending on the outcome of this ACCC enquiry and the market movements following the NBN’s second consultation paper, we may also need to remove altogether the \$59.99 plans (ie., the ELBs).

10. 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?

The TPG brand made no changes but the iiNet group shifted the price of its 25mbps plans and stopped offering 12mbps. Given that we have no price certainty, we continue to contemplate removing all plans less than \$59.99. This would become more likely if the increase in CVC sees our costs continue to increase.

Considerations for potential regulated NBN access pricing

11. 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?

As mentioned above, TPG considers that an access service speed tier of 25 mbps would be the most relevant to achieving a smooth migration for most consumers.

TPG notes that in recent times Telstra has increased the HFC default speeds for existing HFC customers at no additional charge. So experience for those customers moving to the NBN could be poor compared to their existing Telstra cable service. The ACCC’s statement that 25mbps is equivalent for HFC customers may not be accurate.

CVC requirements on commencement

12. 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?

As submitted above, TPG considers that variable charging by the NBN should be removed.

Alternatively, the amount of CVC should start at 1.5 Mbps per customer and increase quarterly based on average data growth usage assessed independently by ACCC or ACMA.

13. 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.

To the extent possible, it is completed.

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

To the extent possible, it is completed.

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Adjusting CVC requirements to account for growth in traffic

15. 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?

As submitted above, TPG considers that variable charging by the NBN should be removed.

Alternatively, the amount of CVC should start at 1.5 Mbps per customer and increase quarterly based on average data growth usage assessed independently by ACCC or ACMA.

Yes, the indexing could be supported on ADSL networks because CSPs had the option of building or buying dark fibre services, which made the incremental costs of securing increased capacity relatively modest.

16. 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?

The increase in CVC dimensioning should be accommodated at the set price over time. There is little cost for the NBN to deliver modest incremental capacity.

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

17. 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?

TPG prefers the bundle model for the price certainty reasons stated above. Discount notices produce uncertainty.

Implications for transformation costs and scale economies

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

Under NBN processes, if TPG wanted to rationalise CVCs (which it does), Customers must suffer outages and TPG must be prepared to do migrations that are complex and expensive to manage. TPG therefore does not consider that the proposed pricing will enable TPG to rationalise our CVCs for any commercial benefit.

19. 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?

The matters that could be considered to facilitate opportunities to reduce transformation costs include:

1. Allow RSPs to pool national CVC bandwidth;
2. CVC charged based on hourly rather than daily measurements;
3. Reduce regulatory burdens or make NBN pay their share of them;
4. Remove intragroup service transfer fees.

Support for a limited and unlimited quota basic speed retail product

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

TPG considers that the best way to promote flexibility is to retain a fixed substantial included amount of data that will enable RSPs to blend the high download users with low download users. This is the way RSPs have been conducting their businesses for many years. A low inclusion of CVC simply creates cost uncertainty and/or technical complexity.

21. 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?

See answer to question 20.

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

See answer to question 20.

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

23. 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?

TPG is concerned about NBN's proposal to offer an NBN12 ELB with a \$35 per month price point whilst at the same time offering a 25mbps product with a price point of just \$2 per month more (the effective price of the NBN12 and NBN25 are in fact exactly the same when CVC of 1.25Mbps or above is provisioned). The commercial construct has the effect of making the NBN25 product too close to the NBN12 product and will advantage RSPs which have either few or no consumers on the NBN12 product.

Application to NBN Co's wireless access networks

24. 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?

The biggest problem with selling wireless NBN is operational. NBN does not manage congestion on its network which creates radical speed fluctuations. This, combined with the regulatory burdens placed on RSPs by the ACMA and the ACCC, makes retailing NBN wireless technologies a very unattractive proposition. TPG would not, under the existing condition, choose to try to offer averaged pricing for fixed and wireless services. It would rather choose to sell fixed services only and avoid the difficulties associated with the wireless products.

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

See above.

Implications for competing networks

26. 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?

No.

Implications for access revenues and costs

27. 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?

None that have not already been mentioned

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28. 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.

To the extent possible, these have been provided.

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

TPG considers that growth in CVC dimensioning for basic broadband access services is unlikely to be a material driver in network provisioning costs for the NBN. The bulk of NBN's costs are likely already incurred or a substantially fixed with modest one of capital investment required to achieve increases. Such increases are likely to be driven by the higher speed tier users.

Service transfer and transfer reversal charges

30. 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?

As stated above, there should be zero cost for intragroup service transfer charges.

It is difficult to reconcile the fact that a new installation has a \$0 install cost from the NBN but a service transfer has a \$25 cost. In TPG's view, service transfer charges should also be \$0.