



Economuse, 15 December 2009

Access pricing - glide path or crash landing?

Most accept that the copper and NBN (FTTP) networks cannot co-exist. Will copper access prices rise gradually or simply be withdrawn with migration to FTTP?

How did we get here?

The aborted NBN “process” sought “value for money” for at least 12 Mb/s over a private FTTN. The new policy announced in April shifted the goal-posts to a public FTTP.

The beauty of FTTN was (a) that it is much cheaper, (b) all existing wholesale access revenues automatically vest with the access network operator and (c) that there is a natural migration as copper morphs into the FTTN. Sounds good – doesn’t it?

Through the first NBN process and up until April, most assumed that Telstra would build the FTTN. Some access-seekers made half-hearted plays [1] for building FTTN while their focus was really on how Telstra’s enhanced access monopoly power could be corralled with “separation”.

But things didn’t go to plan. Telstra failed to lodge a complying bid and the government thought it could finesse the \$20bn compensation for access to copper sub-loop for the FTTN by going fibre all the way. FTTP costs three times more than FTTN but the other justification offered was that investment in VDSL cabinets for the FTTN would be wasted when fibre was pushed all the way with FTTP. The UK Broadband Stakeholder Group faced the same economics but recommended FTTN because it is cheaper.

In April Optus started talking publicly about the dangers of fixed network competition. It saw (a) that Telstra’s copper network could compete with FTTP (which is even more expensive than FTTN), (b) NBN Co. would not get immediate access to existing wholesale access revenues and (c) that there is no automatic migration from copper to FTTP. All these factors conspire against the viability of NBN Co.

Note that now some of Telstra’s thorniest issues like low access prices and the “rogue regulator” (because it allowed access-seekers to arbitrage between uniform retail prices and de-averaged ULL prices) now fall to the government and NBN Co. to solve.

Where to now?

The choice of FTTP was meant to avoid the cost of using Telstra’s sub-loop, but most now recognise that there is an issue of similar value: NBN Co. needs Telstra to cooperatively migrate its copper access customers to FTTP. Telstra likes this path to

structural separation but will need compensation based on the difference in NPV of competing versus cooperating.

Even if Telstra can sell a negotiated outcome to shareholders, access-seekers will prove more intransigent: “we know where all our customers are by electorate” [2]. This is because the current ISP business models based on ULL and/or Line-Sharing will be replaced by more expensive NBN access and a more competitive market with lower barriers to entry. This means lower margins and fewer retailers [3].

How much more expensive?

That depends partly on Telstra; fixed networks rely on economies of scale to reduce average costs. We do know that NBN Co. will be “minimalist” which helps keep down costs and there may be some scope for changing the time profile of costs (and maybe even using FTTN in some cases?). Part of keeping it simple and cheap is not to over-build HFC networks and not to use Wimax (fewer platforms and less retail arbitrage at the margin between platforms).

The Optus/FANOC access pricing undertaking for FTTN foreshadowed access prices around \$50pm for 24Mb/s (plus another \$25 for a voice port). The FTTP will cost more than an FTTN. But the government could consider writing-off some FTTP capex. It will probably have to do that anyway to get a business case for privatisation, so it might as well do it now to get more affordable access prices early – or there will be no customers.

The ACCC’s draft pricing decision in August took two steps in the right direction: (a) it foreshadowed increases in ULL prices; which could start a “glide path” towards NBN compatible pricing to reduce the price shock of moving to the NBN and (b) a move towards averaged wholesale access prices. The “shock-horror” reaction of ISPs may help explain why the ACCC has left current prices on hold.

If there is no “glide-path”, one alternative is that copper access gets turned-off as Telstra migrates copper customers to the NBN. This means reality “crash landing” for those ISPs who have not prepared to follow. Of course, another alternative is that ISPs will seek to extend the life of the copper network – or go to the wall.

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[1] Honourable exceptions were Acacia, Tasmania and TransACT (which I assisted)

[2] John Lindsay from Internode at the OVUM NBN Conference in Sydney, 8 December

[3] See my paper to the same OVUM conference on my site.