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Broadband – What's best for Australia and Telstra?

Telstra has changed its Chairman and CEO but the issues that divide the Government and the company have not changed. Expect little progress until the government takes steps to align the national interest with shareholders of any national network builder - NBN Co or Telstra .

The "rogue regulator"

The chief stumbling block for Telstra's metro-only FTTN plan was that "*The policy-making branch of the government wants a national uniform price, the regulatory branch of the government is pushing for de-averaged prices which would have much lower prices in low cost areas like the central cities and much higher prices in the high cost areas like the bush"*[i]. Three years later, this policy issue has not been fixed.

Under the current regime, the de-averaged wholesale price of the NBN in country areas would be so high that no access-seeker would use it. This is politically unacceptable. The quick fix is to issue a Ministerial Direction to average wholesale NBN access prices. By definition this means that the NBN would be by-passed (ie over-built) in the metro areas undermining the capacity of the NBN to cross-subsidise country areas[ii]. To avoid this, we need a levy on all metro broadband lines whether NBN or not.

Universal Service

The cost of the current telephony USO will necessarily increase as it is migrated from the PSTN to the NBN. For the same cost it can include broadband. But, the funding mechanism has to change. The Competition Tribunal agreed that Telstra is short-changed under current arrangements (see critique cited at footnote 2). The most sustainable way to under-write universal service is through a levy mechanism that cannot be by-passed. This meets all stakeholders' interests.

Cutting the cost

The scale of cross-subsidies and the average level of end-user prices depend partly upon the government funding the NBN in country areas with capital grants and partly on a sane evolution of the NBN.

The corollary of large national benefits ("externalities") is public subsidy. Where investment in NBN access is commercial (ie private benefits exceed private costs), no public contribution is required. Where this is not the case but public benefits exceed private costs, a public subsidy is needed to enable investment. That is, government cannot expect a financial return on the subsidy but will get the national benefits that are realised with the investment.

The scale of public funding and level of prices also depend on minimising the cost of the NBN roll-out. FTTP is a desirable goal but in the interim a mix of technologies would realise the national benefits at less cost. Currently, less than 30% of broadband subscribers enjoy more than 8Mbps[iii] and VDSL2 could be turned on quickly to about 70% of customers[iv] for less than a third of the cost of the proposed NBN.

Take-up rather than coverage

Another key issue for the financial viability of the NBN and its end-user affordability is take-up. An attractive feature of VDSL2 (FTTN) is that take-up is very high because it replaces the PSTN and so all retail and wholesale services migrate to it. But, if FTTP has to compete with the legacy services it overbuilds, it will fail.

FTTP costs more than other access networks. To make it worse, if wholesale access on the existing network is under-priced (as Telstra claims) then it will be very difficult to get access-seekers to migrate to the NBN - unless it too is underpriced.

It should also be noted that while the focus has been on coverage, the national benefits we all want are realised only with take-up. And, the higher the take-up the lower the average cost. There is a better way of achieving high, affordable take-up than pricing on speed bands – but this will be the subject of another column.

Separation or what?

It would be remiss of me not to mention "separation" as both Telstra and its opponents have made much of this. The issue has generated as much heat and as little light as the other separation issue - Australia becoming a "republic". In my view, this should not be a show-stopper for reasons that will be explained in a later issue of this column.

The issues discussed above confront the government's NBN company just as much as Telstra. The good news is that they can be solved by government – quite easily in some cases. If resolved, either a new deal with Telstra or the NBN Co can proceed.

John de Ridder is a consulting telecommunications economist with expertise in competition, pricing and regulation. www.deridder.com.au

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[i] Phil Burgess at an investor briefing on 7 August 2006

[ii] Read how the Competition Tribunal fumbled this issue in "The umpire's decision – a bit average?" in Exchange Vol. 19, No. 19 , 25 May 2007 (also available on my site)

[iii] ABS Cat. No. 8153.0 for December 2008 says 39.5% and 69.6% of broadband subscribers have speeds of less than 1.5Mbps and less than 8Mbps respectively.

[iv] Telstra proposal at 26 November 2008