



Reject Proposed NBN Pricing

Discussion on NBN SAU pricing

Melbourne, February 2013

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All page and table references refer to my submission on the SAU, December 2012
<http://www.accc.gov.au/content/index.phtml/itemId/1088966>

Slide from Feb 2009

Before April 2009
change in policy

- “Is NTT making money on FTTH? **No”**
- “Is Verizon FTTH investment case making money? **No”**

From Ultra-broadband telco investment models by Dr. Raúl L. Katz, *Paris, April 4, 2008*

Problems

1. Low dwelling density or low take up
2. Previous subsidy (e.g. ADSL via ULL) destroys business case
3. Benefits not captured by network owner (open access/net neutrality)
4. (profitless) Infrastructure competition

Solutions

1. One (Regulated) Network only
2. New must replace old
3. Government subsidy, B Party Pays or User Pays for Usage, More Users (100% ideally)
4. One (Regulated) Network only

The solutions were ahead of their time. Hopefully, pricing is not!

Topics

- **Main issues**

- 1 - Usage pricing based on CVCs rather than traffic (GB)

- 2 - AVC speed tiers rather than unconstrained speed

- **“Over simplifying the problem”?**

- **A wake-up call, not a late call**

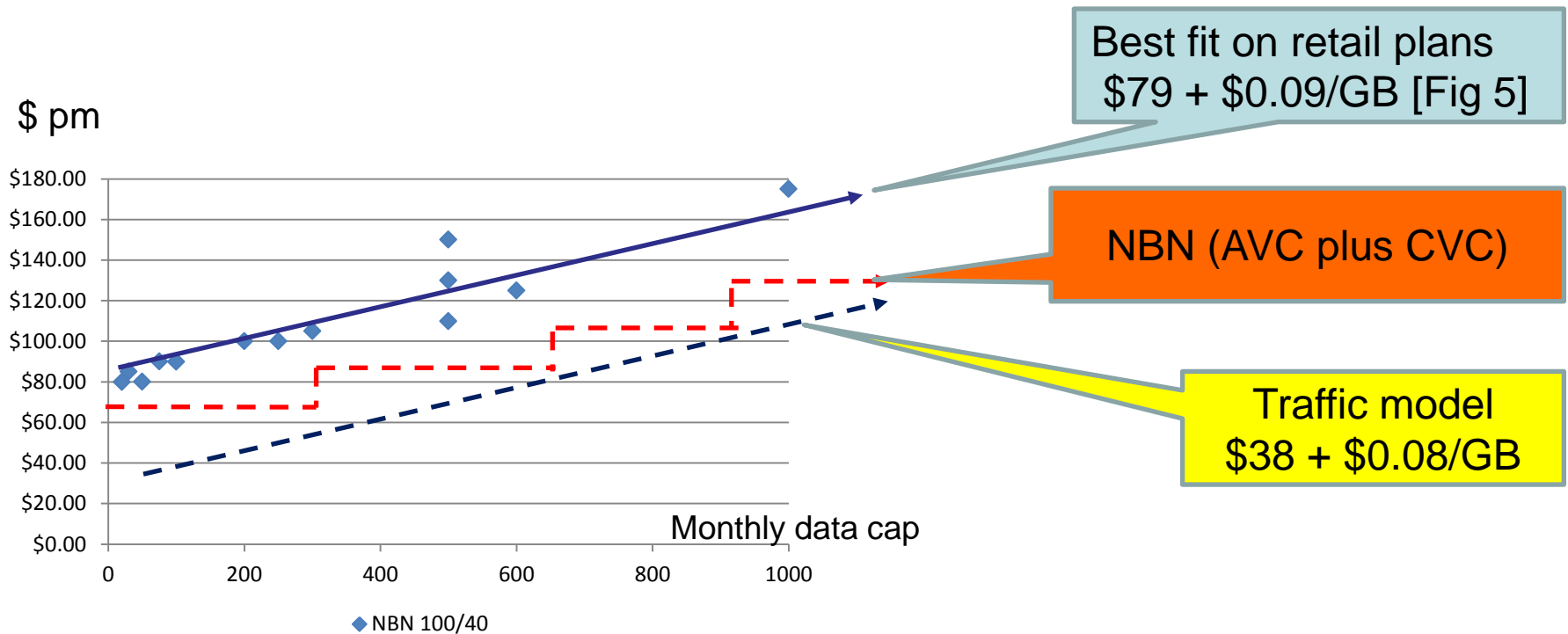
NBN’s proposed pricing would hobble the NBN. It invites RSPs to “add value” by

- **reducing capacity (CVC choice of contention ratio) and**
- **limits speed (AVC choice).**

Issue 1 - Usage pricing based on CVCs

A usage component is a step in the right direction. But why use CVCs and not charge directly per \$/GB?

“CVCs can be used as proxies for usage charging” [p103, NBN Corporate Plan, Dec 2010]



CVC discriminates against smaller RSPs.

Step pricing is discriminatory – smaller RSPs will pay more

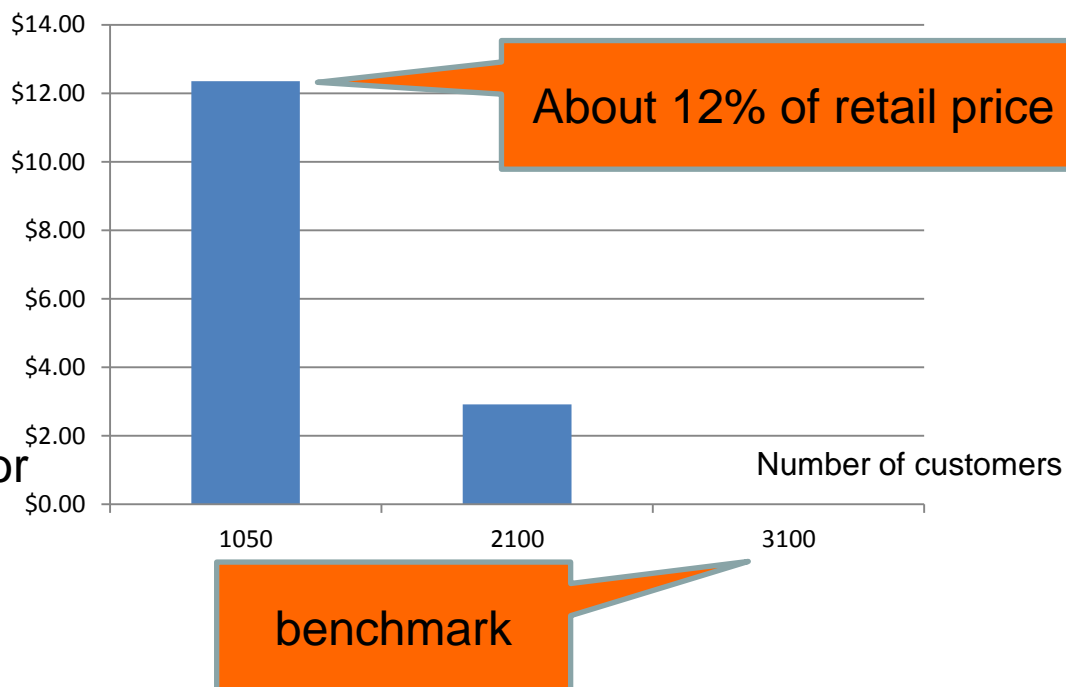
As a guiding principle, differences which lead to outcomes that are consistent with the objective of Part XIC — the long-term interests of end-users (LTIE) — will not be considered by the ACCC as discriminatory.

[p3, ACCC, April 2012, Explanation of Non-discrimination provisions in Part XIC of the CCA 2010]

Requiring RSPs to purchase lumps of capacity (CVCs) is akin to volume discounts and is not in the LTIE because it

- reduces competition in access markets
- discourages economically efficient use of the NBN as NBN Co is the natural aggregator

The extra AVC+CVC costs for 100/40 service at contention ratio of 100:1 [Table 5]



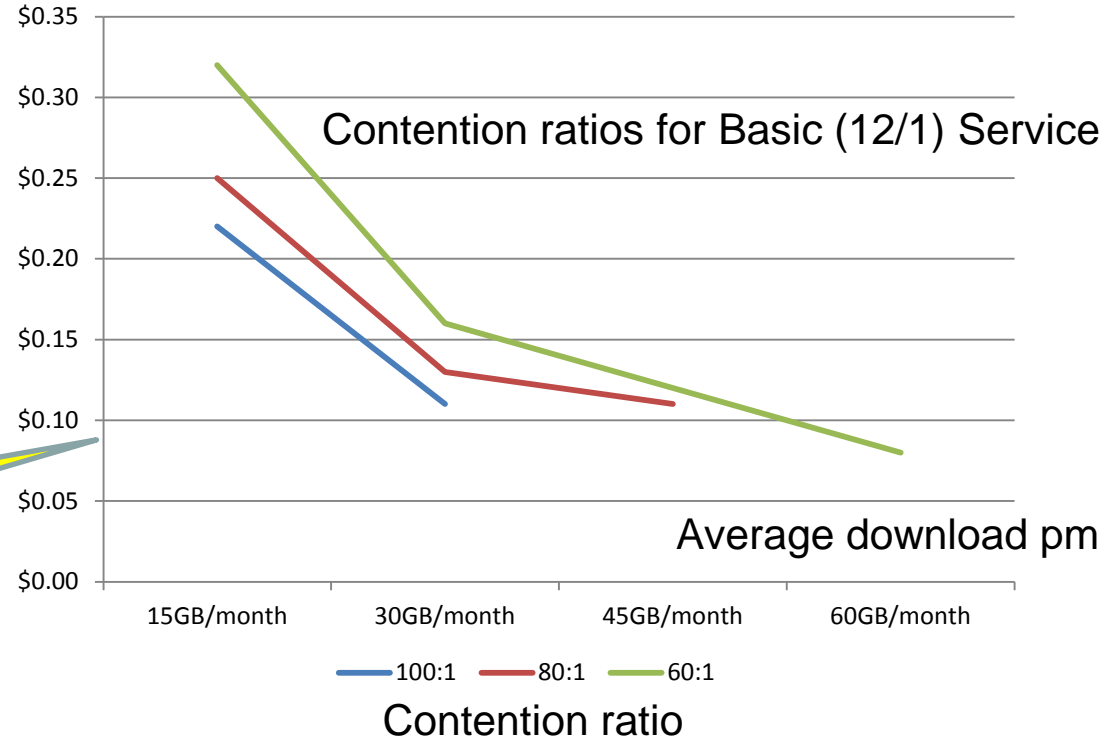
This is not a trivial issue and the “transitory credits” are a band aid that make little difference [see Tables 3 and 5].

And the cost of CVCs depends upon the chosen contention ratio:

RSPs will reduce costs by increasing contention ratios:

“Getting an NBN service that doesn’t work as well as ADSL does today probably isn’t the outcome the government was aiming for”
[John Lindsay, AFR 23 March 2011]

CVC fees
as \$/GB

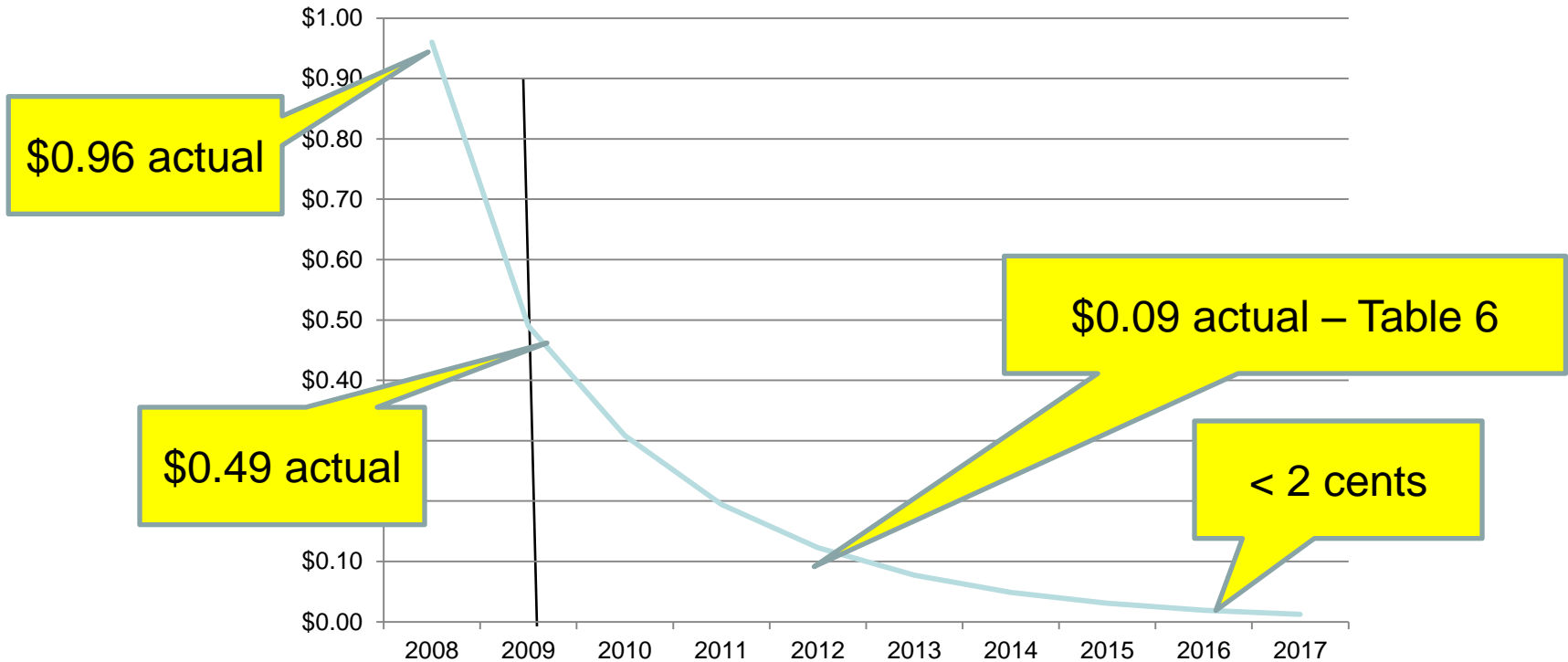


Current retail plans [Table 6]

It is not in the LTIE to build a high capacity and fast network and then invite RSPs to “add value” by reducing capacity (CVC choice of contention ratio) and limit speed (AVC choice).

The implicit \$/GB has been falling significantly:

The following projection was made in December 2009 and retail plans at September 2012 were on track.



The NBN will reverse the trend in falling retail usage fees with wholesale ARPU of \$103 at 2040 [NBN Corp Plan 2012]

Issue 2 - AVC speed tiers

NBN Co. has not provided evidence that customers are willing to pay the premiums for extra speed implied by NBN pricing and that the incremental cost of speed and usage is “very low” [Optus, 7.30 and 7.31] So

“During the build phase, it would be in the interest of consumers and NBN Co — and therefore most likely promote the LTIE — if end-users were encouraged to embrace the high-speed potential of the NBN” [Optus, 7.31]

Optus wants higher CVC fees and lower access prices because it thinks access is price elastic and usage is not:

“A large variable component which has only a tenuous link to costs of supply can have damaging effects in downstream markets by discouraging the adoption of higher speed plans and the take-up of data rich services and applications” [Optus 7.25]

It is not “economically efficient” to discourage the use of the NBN with speed tiers.

Traffic pricing does need an entry level price ..

Entry level retail NBN (12/1) prices

Source: websites at 22 Feb 2013

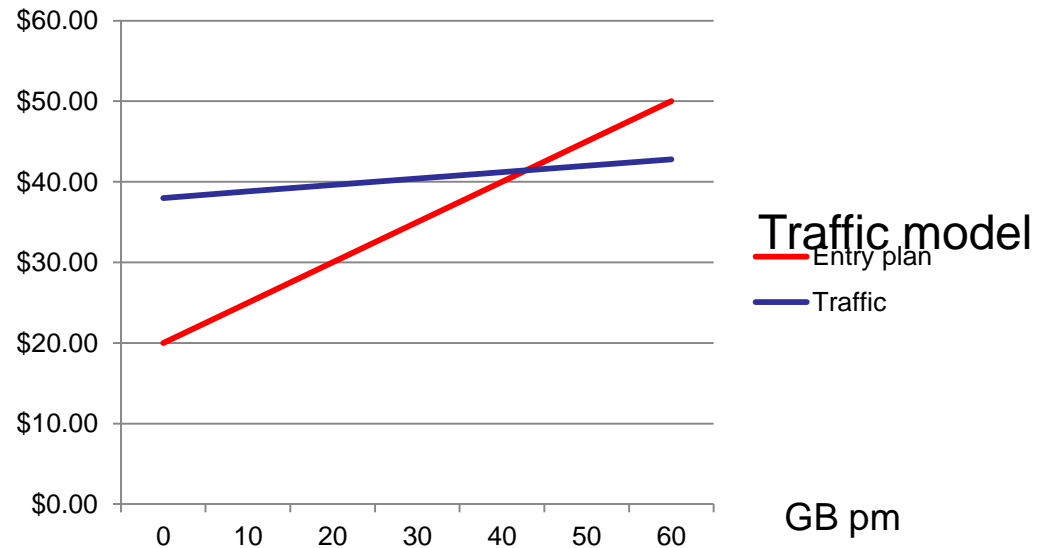
Optus	Telstra	iiNet	Internode	TPG
120GB	25GB	20GB	30GB	100GB
Inc tel	Inc tel	VOIP	VOIP	Inc tel
"Social"	<12Mbps	<12Mbps	<12Mbps	<8Mbps
\$85.00	\$60.00	\$59.90	\$49.95	\$59.98

NBN \$27.33 (Table 3)

Traffic \$38.24 at 3GB

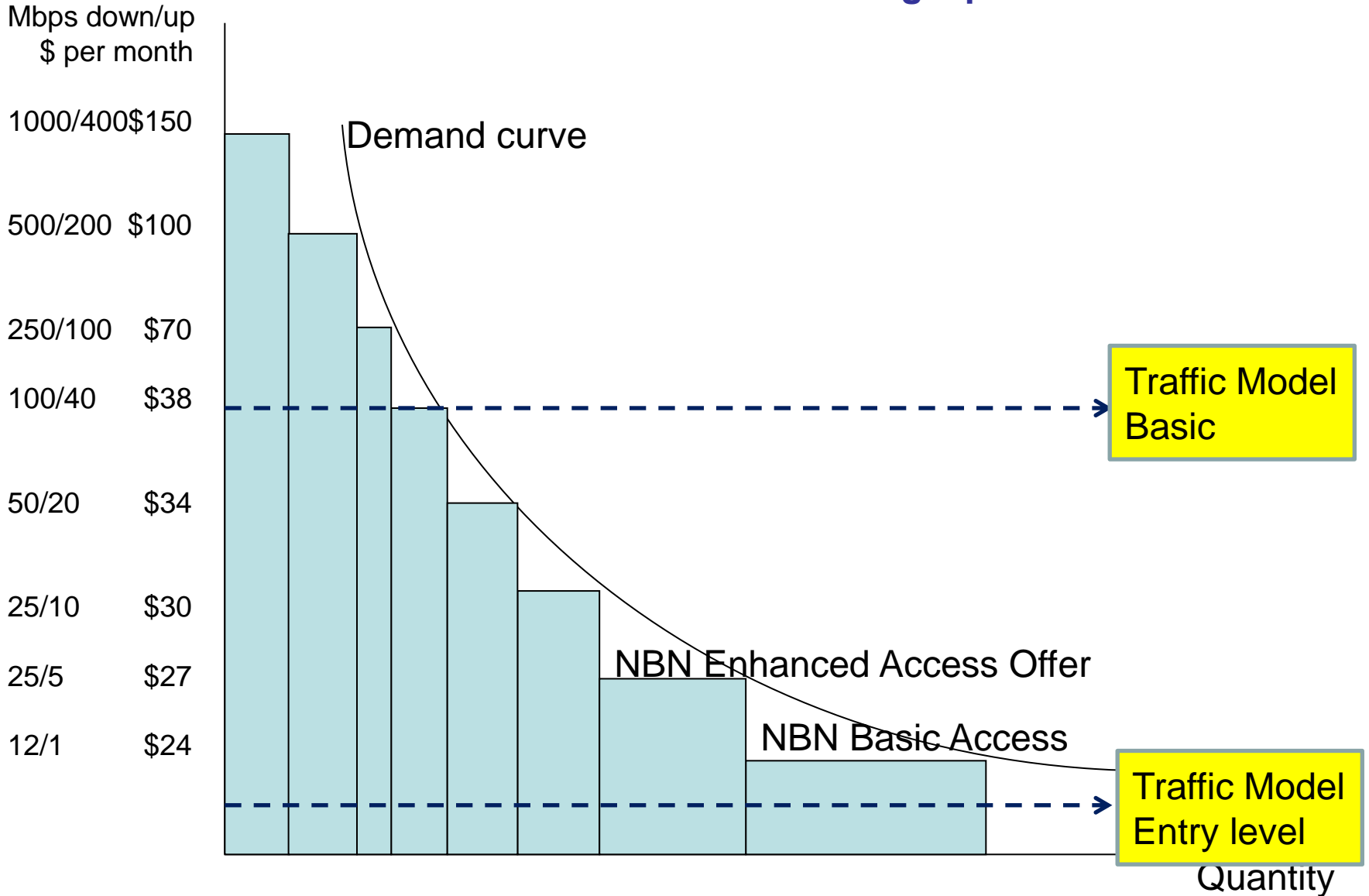
A "single" wholesale price of \$38 is unacceptable, hence the entry level price of \$20 + \$0.5/GB [p18]

At full speed!



All customers are provided unconstrained speed and if they use it, There is a natural migration to retail plans with cheaper data caps.

The Traffic Model is not a “single price”



But there is good news for those already paying for higher speed:

Retail NBN (100/40) prices

Source: websites at 22 Feb 2013

Optus	Telstra	iiNet	Internode
120GB	200GB	100GB	300GB
\$105.00	\$120.00	\$89.90	\$94.95

NBN \$67.05 [Table 3]

Traffic \$40.40

The CVC fees in the NBN price translate to \$0.97/GB versus the \$0.08/GB In the Traffic Model.

A ubiquitous broadband network with everyone getting full-speed will enable the transformations imagined in communications policy:

*"The services of today and the next decade are telemedicine, tele-collaboration, telecommuting, blended education, etc. All things that enable rich interactive experiences without having to be in each other's presence. **This currently needs bandwidths of 100MB/sec or more.**"*

[Senator Stephen Conroy in Communications Day 17 August, 2010]

“Over simplifying the problem”?

The Traffic Model has been accused [zdnet 16 Jan 2013] of being simplistic. NBN Co. sees virtue in simplicity:

“Complex pricing introduces cost, hence, pricing simplicity supports NBN Co.’s objective to service our customers with a minimum of overhead costs” [NBN Pricing Overview, December 2010]

But NBN Co. has not delivered simple pricing. For example, TPG complained that the pricing tool was too complicated [AFR, 28 April 2011].

Why not price directly on data; which also avoids discriminating against small RSPs?

NBN Co. thinks that buying CVCs should be familiar to RSPs as that is how they buy back-haul now. But capacity in the access network exists anyway. NBN Co is the natural aggregator and should be responsible for backhaul in the access network.

The Traffic Model is independent of the technology platform and consequently the pricing is more robust and resilient to choice or mix of technologies used.

Utility Model: oversimplified metaphor?

Oversimplified view: Utilities are not comparable to telecoms!

- less complex
- less interactive
- less dynamic (less uncertainty and risk)
- different economics – high ROI rewards high risk

Corrected view: fixed broadband access can fit utility approach

- applications and services above IP don't fit, but bitstream access and below do fit pipe utility model – technology layering
- very similar architectures and economics for lower layers
- utility pricing fits – prices can fall and operators make a good return

A wake-up call, not a late call

NGA regulation – ship-shape with anchor products? Exchange 12 October 2007

A blueprint for a 5th utility – TransACT’s broadband regulatory submission, June 2008

Fixed broadband - Australia’s next utility? Communications Policy & Research Forum, 29, 30 September 2008

Piped broadband will deliver all the promises. The AFR 13 February 2009

Fixed broadband: private enterprise or public utility? At “Broadband at a Crossroads” Conference, Auckland, 26 & 27 February 2009

Notes on NBN Access Pricing, May 2009 (1:1 briefings)

Broadband – pricing for take-up. Exchange 29 May 2009

Broadband pricing to achieve net neutrality – Goldilocks revisited. TJA July 2009

Investigating Options for NBN Pricing. NBN Summit, 8 December 2009

Submission to the Senate Select Committee on the NBN, March 2010

Building for speed and pricing to withhold it! Communications Day, 24 August 2010

Pricing can solve the capacity challenge. Communications Day, 19 April

Netflix - bandwidth and broadcasting headaches. www.sngroup.com 30 Nov 2011

Submission to the ACCC Consultation on the NBN Co. SAU, Dec 2012

All the above available on my site at www.deridder.com.au

Final comments

The ACCC rejected the FANOC broadband SAU for reasons which are echoed in the current NBN SAU:

“the ACCC is concerned that the SAU gives FANOC too much discretion to determine access prices over the 15 year undertaking period without sufficient regulatory audit and review of the key inputs in the pricing methodology, including actual costs, demand forecasts and the depreciation profile”. [p 6, ACCC Decision, Dec 2007]

The current SAU has to be rejected because it discriminates against small RSPs and because it will not lead to the economically efficient use of the NBN that is required to support government policy.

It is not in the LTIE to emulate the present regime with a model that assumes scarcity in the presence of abundance.

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26 February 2013