ECONOMUSE

2014 review of retail broadband pricing

It takes mavericks to shift the major retail broadband service providers. That seems to be starting now – but we need to make entry to the market easier.

This is the seventh year that I have reviewed the ADSL2+ retail broadband plans and the third year that retail NBN plans have been included. Last year, I concluded that price competition has stalled. That may be changing.

This annual review was originally used to calculate wholesale prices that would support the retail broadband market in 2008. It was the basis for the "traffic model" used as part of TransACT's business case for building the NBN Mark I (FTTN). The idea was to keep wholesale pricing tracking below and parallel to existing retail broadband pricing.

A simple way to represent the state of retail pricing is to put a "best fit" line through a scattergram showing the plan price per month against the peak monthly download (including telephone). The higher the plan fee, the higher the monthly data cap. So, the slope of the line is the implicit average cents/GB and the intercept is the average fixed monthly fee. The estimated typical plans are shown in the table.

In September 2008, the implicit retail traffic fee was a wopping $1/GB for the five major ISPs (Bigpond, Optus, iinet, TPG and Internode); as shown in the table. There was a massive dip in 2010 when the $/GB fell to 5 cents/GB. This was due to Terabyte plans put on the market by a couple of the ISPs - regarded at the time as marketing stunts.

	Five ISPs		Bigpond + Optus	
ADSL2+	Fixed fee	Cents/GB	Fixed fee	Cents/GB
2008	$53.97	95	$57.02	175
2009	$54.40	49	$49.34	172
2010	$57.31	5	$41.01	36
2011	$51.43	9	$51.45	9
2012	$61.67	8	$66.65	10
2013	$77.44	7	$83.79	12
2014	$69.89	5	$69.36	9
NBN 25/5				
2012	$66.13	8	$71.60	6
2013	$73.94	8	$72.56	13
2014	$69.70	7	$72.47	9

At least, you can put a Terabyte on the scattergram – but not "unlimited plans". Optus now has a couple of such plans and all TPG's plans are unlimited. These unlimited plans are not included in the table.

Last September, TPG did not have any NBN pricing. Now it offers NBN service at either 12/1 or at 100/40; with a premium of $30 for the latter. All its NBN (and ADSL2+) plans have unlimited data caps. If you impute a $70 fixed component (suggested by the table) to TPG's $90 plan for 100/40 plan, the implicit fee per GB depends upon the average traffic per customer.

The Australian average is currently around 50GB pm (guesstimate) and TPG's customers will use more than that. At 200GB pm it would be 10cents/GB. The fact remains that TPG is

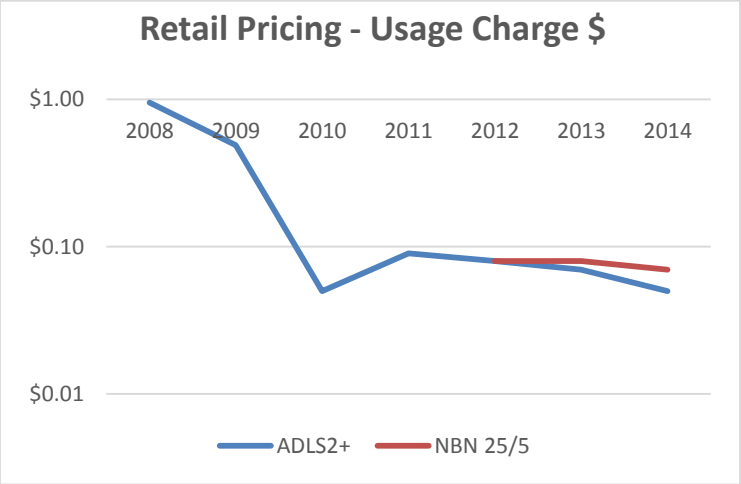
cheap as even customers with low usage on the NBN would be better off with TPG (excepting Internode for 30GB pm or less).

The five ISPs in the table account for the lion's share of the retail market. But they can be moved by mavericks – like Exetel. It was probably Exetel's introduction of "unlimited, any-time data" over 100/40 speeds for $90 that spurred TPG to match the offer in April.

How can they do it? The current NBN Co. pricing system allows each wholesale customer to choose its contention ratios and CVC capacity. There is an incentive to under-dimension to make the service cheap. The customers can still download huge amounts, but speeds will suffer if the ISP is scrimping.

Note that if NBN Co. replaced the CVC with a simpler cents/GB fee, there could be no deliberate degradation of service in the access network that NBN Co. is responsible for (although throttling could still occur in the backhaul outside the NBN).

And, making all NBN access fees variable by number of users (AVC) and traffic (CVC), as just suggested, removes the discrimination against new entrants posed by lumpy CVC pricing and makes it easier for anyone to enter the market without knowing how many customers they will have in any area.



We need new entrants to put downward pressure on the large mark-ups over NBN input costs; discussed in competition has stalled.

The price points suggested in Entry Level pricing for the wholesale NBN traffic model ($38 with 8 cents/GB and $10 with $3/GB) continue to be appropriate for the current retail broadband market - as can be seen from the chart showing retail prices having continued to have a Gigabyte charge that has barely changed in four years.

This time next year, we shall know if the other major ISPs follow the Exetel and TPG lead into unlimited data plans; just as they reacted to the Terabyte plans in 2010.

By itself, this would not do much to make the NBN more affordable – only a very few customers are interested in unlimited data. What we need is a revision of wholesale pricing to enable affordable pricing and more competition driven by new mavericks (Woolworths?).

Do not expect to see the results in next year's survey.

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