ECONOMUSE

USO levy study – Final Paper

Better than expected - but mobiles, privatisation and write-downs ignored.

The Bureau of Communications Research (BCR) has done a good job on the final consultation report released last week after a shaky start. But, it continues to under-estimate mobiles and has tackled neither future privatisation nor non-levy options like a write-down.

The original consultation paper asked 28 questions about method and has clearly heeded the submissions it received. But, it has not accepted all suggestions.

My pet issue is the continued under-estimation of the impact of mobiles. Mobile broadband is excluded from contributions on the basis that it is "*only a partial substitute for fixed line services at this time"* (p38). The NBN's long-term estimates of mobile substitution on which the BCR relies (p39) have been overtaken. The last NBN analysis drawing on OVUM and Roy Morgan (Corporate Plan published on 15 December 2010) found that in 2010 about 7-8% were "true" wireless-only households (i.e. not using naked DSL for voice). OVUM thought the "true" percentage would be under 15.6% (central scenario) by 2020.

I took a bet in January 2011 with two local experts that 20% would be breached by 2020. I think I shall be collecting soon! The BCR tells me that the ABS figure is now 15.9%. On ACMA data it is higher with the BCR stating above Figure 21 in its latest paper that "*the 21 per cent of households that do not have a fixed line service would not contribute to the funding of non-commercial services"*. The BCR takes some comfort from the fact that over 20% of the lowest income consumers rely on mobile broadband so that with the exclusion of mobiles, they will not have to make contribution to the USO levy.

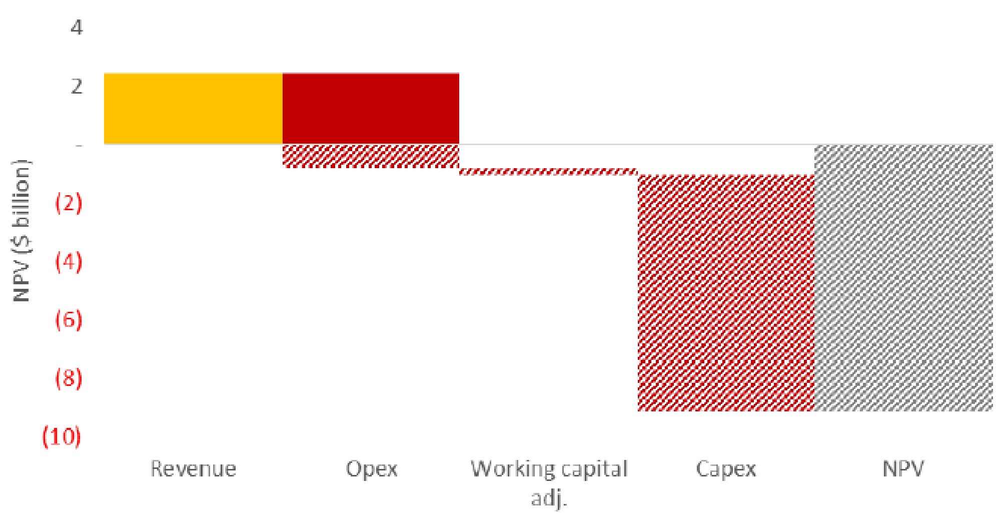
Fixed line, voice-only services would not be subject to the levy if they are delivered over less than 25Mbps. But, the NBN still has a problem. Up to 1.5m fixed services may be voice-only and may migrate to mobile voice if current NBN pricing does not change. That would not help revenues.

The Government's response to the Vertigan reports said that its recommendation for the privatisation of the fixed-wireless and satellite networks is an option for the future. Although the terms of reference said *"The BCR should also consider other issues that may be relevant to this task and provide recommendations",* it has completely ignored privatisation as a future option of looked at how its recommendations would play into such a policy in future.

The BCR report shows, as we all knew, that construction or launch costs account for over half the capex across fixed-wireless and satellite services. All the contributions from the Commonwealth are treated as equity injections (over $13 billion at June 2015). These assets do not generate a positive net present value because they are non-commercial services. So, they could be written down to help make them commercial assets and this would not affect the budget deficit (see Parliamentary Library note on the NBN of 13 January 2012).

However, on the BCR analysis the revenues from these non-commercial services do not cover their operating costs (see Figure 16 from the report here).

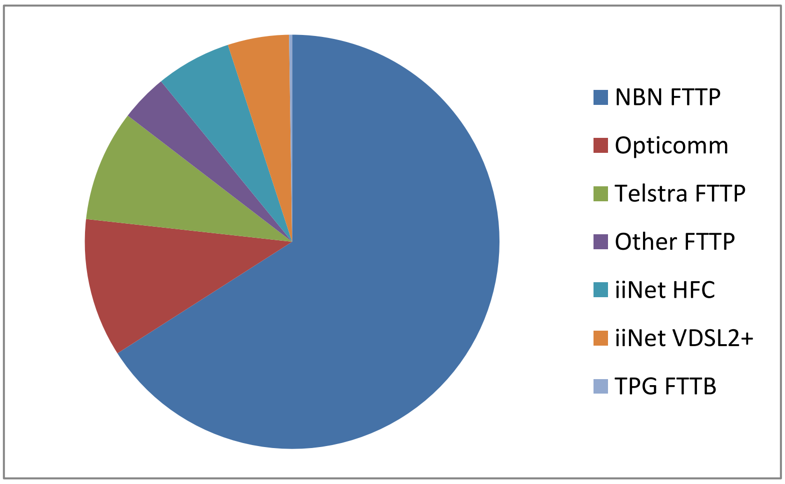
Figure 16: NPV loss, breakdown by financial item



But, the $6 per broadband SIO per month could be reduced significantly if there is a write-down.

Incidentally, that $6 figure is very close to what the Minister at the time predicted: *"The Government estimates that over the 30 years to 2040, the fixed wireless and satellite networks (covering the 7% outside the fixed line footprint) will cost about $13.16 billion in capital expenditure and $9.45 billion in operating expenses for a total cost of $22.6 billion. Against that will be revenue of only $5.36 billion resulting in a total loss of $16.8 billion, more than half a billion dollars a year. That massive loss is cross subsidised by city broadband users and amounts to about $6.70 per user per month for every city customer"* (Malcolm Turnbull's blog, 12 Dec 2014).

The $6 is implicit in the NBN's geographically average wholesale tariffs. It will be the largest fixed broadband provider, so that $6 per high-speed (25Mbps or more) line per month will represent the lion's share of the cross-subsidy to fixed wireless and satellite services; just as Telstra contributes the greatest share of the current universal service obligation.



This slide shows that the BCR estimates that NBN's ready for service lines at June 2015 account for two thirds of the 1.36m high-speed lines at that date.

Notable exclusions are the Telstra and Optus HFC networks which are being folded into the NBN; and I have no problem with that.

So, it has been a long time coming. I suggested a levy of this kind as early as May 2009 and again in my Senate Submission on the NBN in March 2010. The BCR expects that any scheme could be implemented in 2017. Let's hope so. It should lead to efficient and sustainable infrastructure competition.

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