

2018 review of retail broadband pricing

Wholesale pricing still a problem for retail pricing

Last year's annual [review](#) of the retail broadband market in Australia looked at how it had evolved since 2008. The review of September 2018 prices shows that there has not been much movement on the major issues identified with retail broadband prices:

1. Lack of affordable entry-level prices – this is still an issue despite the new NBN Entry Level Bundle; but too recent to be reflected in the results discussed here.
2. Poor take-up of high speeds – slightly better thanks to new High Capacity Bundles.
3. Increasing pressure on ISP margins due to CVC pricing (leading to under-provisioning) – still true, with full impacts felt when the migration to NBN ends.
4. The growing threat (to the NBN) of increasingly competitive mobile broadband – no change.

1 – My previous column commented on the [Entry Level](#) Bundle announced on 18th September 2018. This is to be implemented this month. The current NBN12 plans range from \$30 to \$65 per month with capped monthly downloads ranging from 10 to 500GB. As noted in my last column, it is likely that these caps will have to be reduced.

2 - I commented in January on the [High Capacity](#) Bundles that were introduced in December 2017. The “Focus on 50” (F50) bundle has flowed through to retail pricing. A year ago *“more than 80 per cent of end users are on plans based on the nbn 25 wholesale speed tier or lower”* (NBN 14 December 2017) and in [August 2018](#) only 51% were. Wow! Still too much and not enough to rise in global rankings.

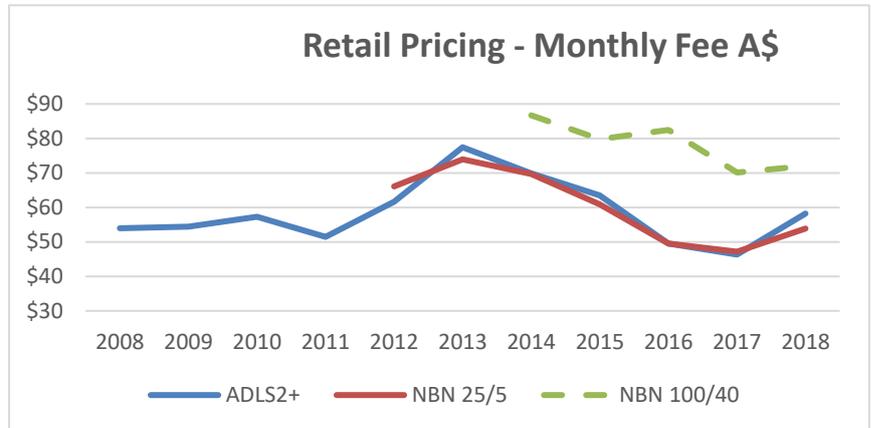
TPG and its associated companies iiNet and Internode were not offering 25Mbps plans in the September 2018 survey reported here. They are offering unlimited F50 plans at \$80; the same price as their unlimited 25Mbps plans a year ago.

“Typical” plan in 2018	Fixed Fee pm	Cents per GB	No. plans
ADSL2+	\$58.26	3.38	8
NBN12	\$39.30	3.44	9
NBN50	\$53.88	2.66	9
NBN100	\$67.01		

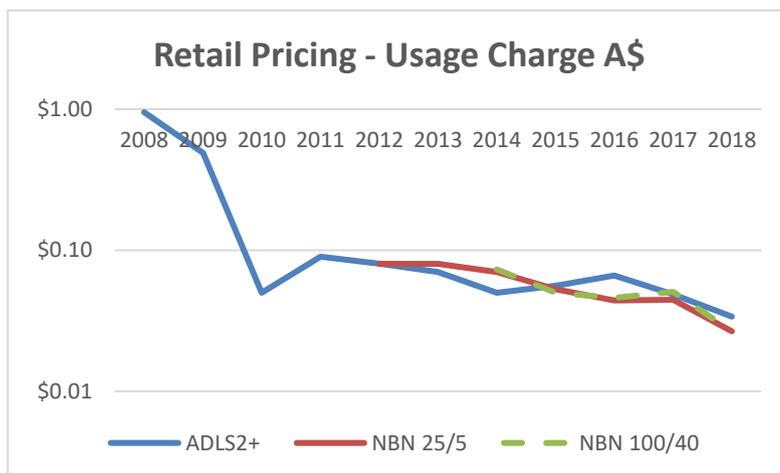
Perhaps, Telstra and Optus, which both continue to offer NBN25 and F50 based plans, are being more cautious because the High Capacity Bundles are temporary offers. The first promotion period expired at the end of April and the current promotion period expires at the end of October 2018. A third promotion period seems likely as retailers disappearing margins can't absorb any more.

Since 2008, I have reported movements in the retail broadband market using a regression analysis of capped plans to estimate “typical” retail broadband plans (unlimited plans are discussed below). The September 2018 results are in the table above. The estimated premium for an NBN100 based plan was \$18 over an NBN50 plan; compared with premiums of \$30, \$10 and \$20 for Telstra, Optus and TPG respectively.

The fixed fee component had been going down for the last few years. But, this year it increased slightly – as shown here. In my view, the fixed fee cannot increase further without losing more users to mobiles (see 4 below).



The good news is that the implicit usage fee in capped plans has continued to fall; as shown in the chart below. As noted in the table above, the implicit usage fee in typical high-speed



NBN based plans is now under 3 cents per GB.

When this way of understanding the retail market was first conceived in building the TransAct bid for the NBN Mark 1, the idea was that wholesale prices would be charged a lower fixed fee and the same fee per GB. That idea was bastardised with the CVC.

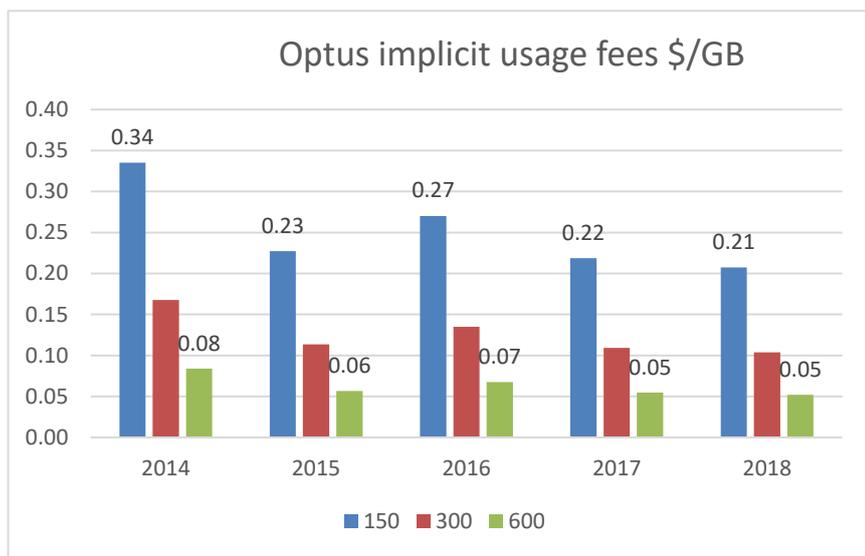
3 – The CVC is the surrogate way that the NBN charges for traffic. It is sold as bandwidth and chokes the actual throughput of the AVC connection. If water was charged this way, small pipes that choke would be provided to those taking affordable plans. But it is only a pricing construct (see [August 2017](#)). Before the NBN (i.e. on copper), the cost per end user was fixed (e.g. a function of unitised DSLAM costs plus unbundled local loop). On the NBN, the growth in traffic drives the cost of serving end users.

The list price of CVC was initially \$20/Mbps and is now \$17.50/Mbps or about \$15/Mbps with the discount for dimensioning 1Mbps per user; which is the average now. The F50 wholesale promotion, which bundles 2Mbps/user into the \$45 AVC, allows extra CVC capacity to be bought for \$8/Mbps.

How does this sit with retail plans? The unbundled NBN50 AVC costs \$34 versus \$45 for F50 with provisioning of 2Mbps/user. Taking the current average of 190GB/user/pm, the CVC costs on the unbundled NBN50 translate into 10cents/GB; more than double the implicit

cost in capped plans (see table above). While there is no CVC cost for the F50, the \$11 difference in AVC costs (which pays for the bundled-in 2Mbps/user) translates into 6 cents/GB.

What about the unlimited retail plans? The implicit cost of data in unlimited retail broadband plans can be inferred by deducting the best fit access fee (estimated from capped plans) from the advertised plan fee for an unlimited plan and dividing the remainder by an assumed usage to get cents per GB.



This chart shows how the implicit usage fee has moved over time for different assumed levels of use ranging from 150GB to 600GB per month.

Unlimited plans are not good value. For anything less than 150GB pm, you are paying over 21 cents/GB for data consumed. The less you use, the higher the cost of data. In [June 2018](#), the

mean and median usage on the NBN were 190GB and 108GB pm respectively.

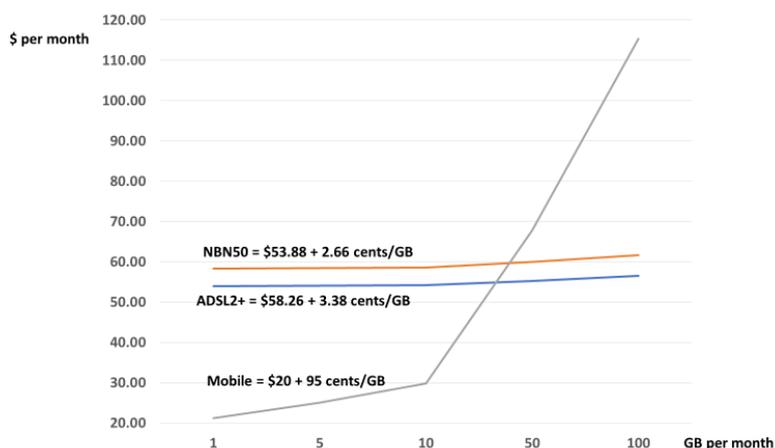
4 – This chart shows that mobile (SIM only) plans are super-competitive with fixed broadband up to 35GB pm. But you don't want to exceed your monthly cap when excess data fees are commonly \$10/GB!

The current retail plans based on NBN12 are competitive but they will probably be knee-capped by the NBN entry level bundle implemented on 2 October 2018.

Unlike the High Capacity Bundles, the entry level bundle is not a promotion. It can be withdrawn with six months' notice. But, it is

more likely that the NBN12 will be withdrawn because the NBN hates it and is determined to have the plan good only for voice.

Despite the changes in the structure of NBN pricing, there has been little movement in retail prices. And the level of NBN prices now and into the future is a real concern.



John de Ridder