

### Can we go faster and cheaper, please?

*The focus to-date has been on rolling-out the NBN faster and cheaper. The NBN does need to be faster and cheaper – but to its users.*

How compelling is the NBN value proposition? Is it too late to fix the NBN business model and to encourage adoption, utilisation and set world's best practice?

May 23<sup>rd</sup> began the migration of customers in the first 15 Fibre Serving Area Modules (FSAMs) to the NBN from existing landline phone links, ADSL internet and cable internet services. There are two important questions about this migration.

First question: how many customers are choosing to forgo a fixed connection and rely on mobiles for voice and/or data when forced to migrate? And second, for those who do migrate, what speeds are they choosing?

The answers to these two questions are critical both to NBN Co. and also to achieving the benefits that are expected from the NBN project. On the first, the initial NBN Co 3 year plan (December 2010) assumed that wireless-only occupied households would increase from 13% to just 16.3% by 2025 (and 16.4% by 2040).

That seems very optimistic and the December 2013 Strategic Review agrees, reducing predicted revenues due to *“an accelerated migration to mobile-only and the potential for existing broadband infrastructure providers to use fibre to serve residential premises such as large apartment blocks (e.g. MDUs)”*. Mobile substitution (and TPG) is an issue for NBN Co.

Almost 1 in 5 of nearly 9 million occupied households has no internet access. That is, there are about 1.5 million households that may opt for mobile voice service only; if they have not already done so.

On top of that, there will be many others who may choose to opt-out of a fixed internet connection. The fewer connections to the NBN, the more those remaining on the NBN will have to pay.

Current NBN pricing is not helping to drive adoption. The minimum wholesale cost is about \$26 per month. *CommsWire* (27 June) reported that Australian Broadband Services (AusBBS) has launched low cost, phone only, services for premises passed by NBN fibre. The minimum cost is \$34.95 per month for local and national calls at a flat rate of 20 cents and mobile calls at 27 cents per minute.

We can – and must – do better than this.

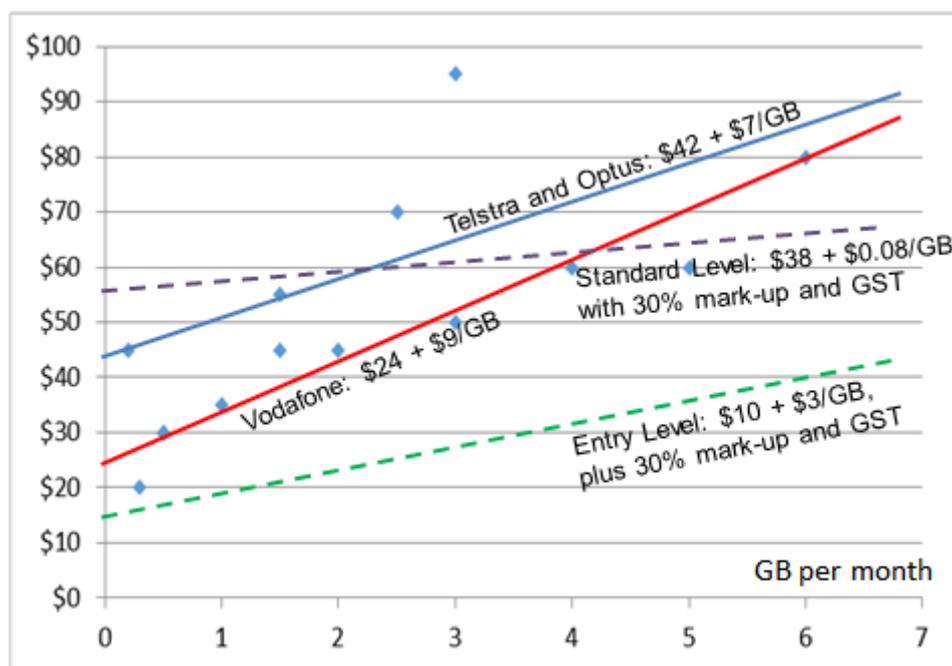
With the Entry Level pricing suggested in a paper on [affordability](#), the retail price of a voice-only plan on the NBN could be as little as \$14 per month (before call costs but after allowing for a 30% mark-up on NBN costs plus GST). Remember that with FTTN, the cost of keeping a voice-only customer on the NBN is small (no lead-in, no wall-mounted battery and no new internal CPE or wiring). NBN Co. needs to keep these customers.

The proposed Entry Level price also mitigates the risk of fixed internet customers becoming mobile broadband only. Already, around 40% of broadband households have mobile broadband access; although we do not know how many rely only on mobile broadband access (ABS Cat. 8146). The current experience in the 15 FSAMs may shed some light on what we can expect - if there are no changes to NBN Co.'s business model.

The proposed NBN Co. Entry Level wholesale price can not only make voice service more affordable on the NBN but also make it more attractive relative to mobile broadband.

The chart below updates Figure 6 in the [affordability](#) paper with best-fit solid lines through current retail prices for BYO mobile broadband plans (which also include voice minutes). The proposed Standard NBN wholesale price of \$38 + 8 cents/GB supports retail fixed broadband plans (including on the NBN) with the dotted lines adding a 30% mark-up and GST to show the Entry and Standard Level retail prices that are possible on the NBN.

Actual retail prices are a lot higher either because competition has [stalled](#) and/or ISPs are waiting for more sensible NBN pricing.



The proposed retail Entry Level prices are lower than all the mobile plans; but that ignores additional costs of calling over the NBN.

The average download on mobile broadband is just over 2 GB per month compared with over 22 GB pm over fixed broadband connections (December 2013). Of course, that's because a lot of mobile devices download over the fixed network at home or at hot-spots. Also, a typical modern

---

household of three people may have 3 or more mobile broadband services. With the proposed pricing, price is no cause for avoiding a fixed connection.

You will notice that the proposed NBN pricing does not refer to speed. The simple Entry and Standard prices replace AVC (speed) charges. Note also that Telstra's LTE services are often faster than fixed broadband and don't have a speed component either.

This brings us to the second question: what speeds are people in the 15 FSAMs migrating to the NBN choosing to pay for?

A recent EU survey ([Special Eurobarometer 396, Nov 2013](#)) found that just one in six respondents (16%) would be willing to pay their ISP more for a faster Internet connection and 40% would consider switching ISPs to get a faster speed for the same price.

NBN Co. is counting on people migrating to higher speeds over time; and that is happening. In December 2007 (before NBN Mark I) less than 4% of connections were 24 Mbps or higher. In December 2013, that became 17% (28% on the NBN). Over the next decade on NBN Co.'s current plans, that will grow to about 50%.

What a waste! That means that after the completion of a multi-billion dollar broadband network, nearly half of connections will be on less than 24 Mbps – not much different than what is possible today.

According to European research firm, IDATE, 29% of the world's broadband connections at the end of 2013 were above 30 Mbps; compared with Australia's 17% above 24Mbps. According to [Akamai](#), Australia's average connection speed at 6.0 Mbps puts it in 42<sup>nd</sup> position globally (with South Korea top at 23.6Mbps).

We should use the best speed available on the day across all NBN platforms. No wholesale customer (or rival broadband network) will then offer less than full speed. And replacing CVC charges with a simple gigabyte usage charge would remove the incentive to throttle speed to reduce price.

Think what doing these would do for innovation and utilisation on the NBN! Compare that with the current pricing which can only lead to more of the same.

The NBN was intended to deliver affordable and fast broadband to all Australian households. That won't happen with current pricing. How about exploiting the multi-technology NBN to deliver all the available speed, without artificial choke points and at affordable prices? Higher speeds result in higher downloads leading to lower fees per GB which lead in turn to more usage – a virtuous circle.

Is it too late to change prices? NBN Co. and the industry have gone to a lot of trouble to agree the current regime (SAU). But, do we want to live with a model that emulates the past for the next 30 years when we can change it now? A model that will encourage adoption, utilisation and set world's best practice is worth the effort.

*John de Ridder*