ECONOMUSE

The problems of transitional pricing

In both Australia and New Zealand, regulators have been part of the problem in migrating to next generation fixed networks.

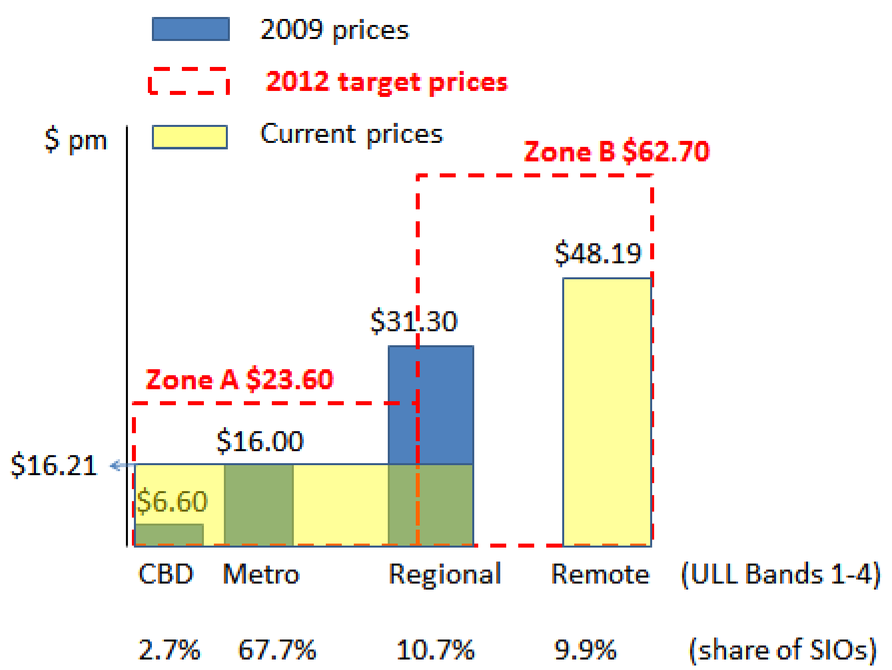
The current furore over Telstra's attempt to increase access pricing to its copper network needs to be seen in its historical context. New all-fibre or part-fibre networks have to persuade customers to migrate from existing legacy copper networks. In the process, regulators and policy makers both in Australia and New Zealand have made the migration more difficult for the next generation network.

The ACCC once tried to set a glide path towards expected NBN pricing. That turns out to be important given NBN Co.'s decision to stake initial wholesale prices around current copper-based wholesale prices. It seemed a good idea, but, the ACCC backed down after howls of anguish from the ISPs.

In its August 2009 draft final access determination (FAD) for fixed services the ACCC proposed indicative prices over the three years to 2012 to "provide regulatory certainty regarding access in a period of transition and to achieve the objective of promoting the long-term interests of end-users during the transition to an NBN".

The Zone A price of $23.60 for unbundled local loop (ULLS) combined Bands 1 and 2 with part of Zone 3. With over 98 percent of ULLS lines in Bands 1 and 2 priced at $6.60 and $16 respectively, the protests were loud – and heard.

As shown in the chart, the current price for the ULLS is averaged across Bands 1 to 3 at almost the same price as the Band 2 (Metro) price in 2009, "simplifying the price structure and easing the transition to nationally averaged wholesale pricing for the NBN" (FAD, July 2011).

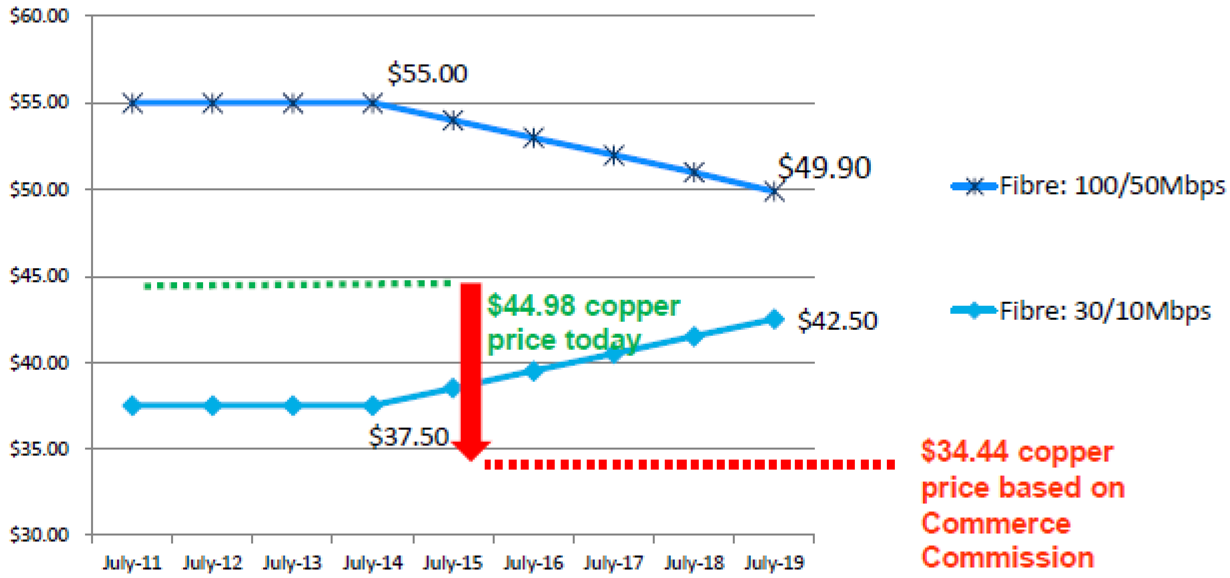


Band 4 (Remote) has its own price; which the ACCC was not game to set in 2009.

The current $16.21 pm is still much cheaper than NBN prices starting at around $25 pm; and, of course, ISPs (or RSPs as we now call them) are not happy about that. But, with forced migration to the NBN they have no choice.

When the previous government moved the policy goal post from FTTN (NBN Mark 1) to FTTP (NBN Mark 2), it did not immediately realise that left Telstra and its wholesale customers with a choice. So it had to bribe (about $90 billion) and cajole (threaten to limit access to spectrum) Telstra into migrating all its customers to the NBN. That complicates matters for the ACCC, as we are now seeing.

Across the water in New Zealand, there is no policy for forced migration and the main provider, Chorus, operates both legacy and next generation networks. Recognising government policy that customers should be on the new networks, Chorus actually set its entry level fibre price at NZ$37.50 which was well below the copper based price of NZ$44.98; as shown below.



The problem was nobody told the regulator (the Commerce Commission), which cut the wholesale copper price to NZ$34.44 to the consternation of Chorus which claims a NZ$142m pa hit to EBITDA.

As our own Department of Communications told the ACCC in the current Fixed Services Review, “Price differentials that favour legacy networks could delay migration, and mislead consumers about the prices they should expect to pay for broadband going forward... retail providers may also be encouraged to attempt to delay the transition with a view to seeking higher margins by using the legacy network”.

The ACCC has another (last?) chance to show that it can re-set fixed service prices that stimulate migration to the NBN and provide the certainty that the industry always clamours for. Can it rise to the challenge?

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