

### Last chance to reform NBN pricing?

*Whether or not the ACCC blocks the TPG-iiNet merger, we need to encourage new entrants to the fixed network and position it for the growing appeal of mobiles.*

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In yesterday's column I argued that the TPG-iiNet merger would cause an alarming increase in industry concentration and less price competition. But with or without this merger the competitive process can still be strengthened with a few changes discussed below that will shore-up both competition and NBN Co.

Time is running out. There was a time, nearly five years ago, when mobile broadband was not considered a threat to the fortunes of the fixed network. Dismissive comments such as "spectrum limitations will always limit what mobile broadband can do" and "the vast bulk of downloads are over the fixed network" were, and still are, common.

But, today now many users can get better speeds over mobile broadband than they can over wired. And, although the average monthly download on the fixed network is very high, it reflects a long tail. There may be many customers who can live with 10 to 12GB per month; which is cheaper than the NBN (see this [column](#) September last year).

Now is the time to dump AVC (access virtual circuit) speed tiers. We could have best efforts up to 100 Mbps with a premium for faster services. Mobiles do not charge for higher speeds and having best efforts to 100Mbps in the NBN will take speed out of the equation. It is not a constraint anymore.

This would also do wonders for our global rankings. Australia is ranked 42 in Akamai's latest quarterly State of the Internet report for the average connection speed. Let's change it with the stroke of a pen. With more bandwidth bestowed on fixed customers, we may then see the innovations in new services and utilisation that the NBN was supposed to unleash.

But, to get the best result from higher speeds, we must also dump the speed throttling that is used by ISPs to manage data caps. We cannot do much about what contention rates ISPs use in their own networks. But we can dismantle the artificial bottleneck in the NBN caused by CVC (connectivity virtual circuit) pricing.

Charging per GB makes NBN Co. (the natural aggregator) responsible for its own access network and removes the ability of ISPs to introduce contention into the NBN access network. This will also lower barriers to entry.

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Consider TPG's comment that with the takeover of iiNet it will "be well positioned to deliver scale benefits in an NBN environment". One aspect of NBN pricing that unnecessarily presents a scale problem for new entrants is making them buy large increments of capacity (CVCs) before they can serve the first customer in any area. It is [discriminatory](#). Charging per GB instead would make all NBN costs variable allowing new entrants to serve the whole market easily.

And, let's not forget that we have to make the NBN more affordable for voice-only and low data usage customers or they will defect to mobiles. As shown in another [paper](#), that risk can be reduced with a simple self-administering segmentation of the market below 100 Mbps.

An entry-level wholesale price of, say, \$10 + \$3/GB would satisfy the low end of the market. Once they exceed a certain threshold usage, their ISP would migrate them to a standard wholesale price of, say, \$40 + 5 cents/GB (and pass NBN cost savings on in a lower retail plan, please!).

While still on the subject of the NBN, it would be remiss of me not to remind readers of that infernal ICRA (incremental cost recovery account). This has been used to hide the true cost of the NBN and will be used in future to collect revenues over and above the revenues it would be allowed based on its costs.

The ACCC has allowed this. This is the time bomb sitting under the future affordability of the NBN and it should be written off sooner rather than later.

That leaves the question of backhaul outside the NBN. The current 121 NBN POIs were decided in 2010 as a compromise intended to avoid stranding existing competitive backhaul and foreclosing investment in backhaul.

Has the development of the backhaul market met the expectations of the ACCC in the last four years? Maybe it is time to revisit the risk to backhaul providers of allowing NBN Co. to offer capital city POIs (at a premium) against the potential to facilitate market entry.

New entrants will keep the incumbents honest. With the reforms suggested above, the new entrants will emerge. They will be household brand names (think supermarket chains or Virgin). They will be attracted by the high margins that exist today to provide what is essentially a simple connectivity service. They will help keep prices down.

Let's reform the fixed market, or it will become increasingly irrelevant due to mobile broadband.

*John de Ridder*