

ECONOMUSE

A shaky start for USO levy study

There is not much time and a lot to do yet to get on top of this complex issue

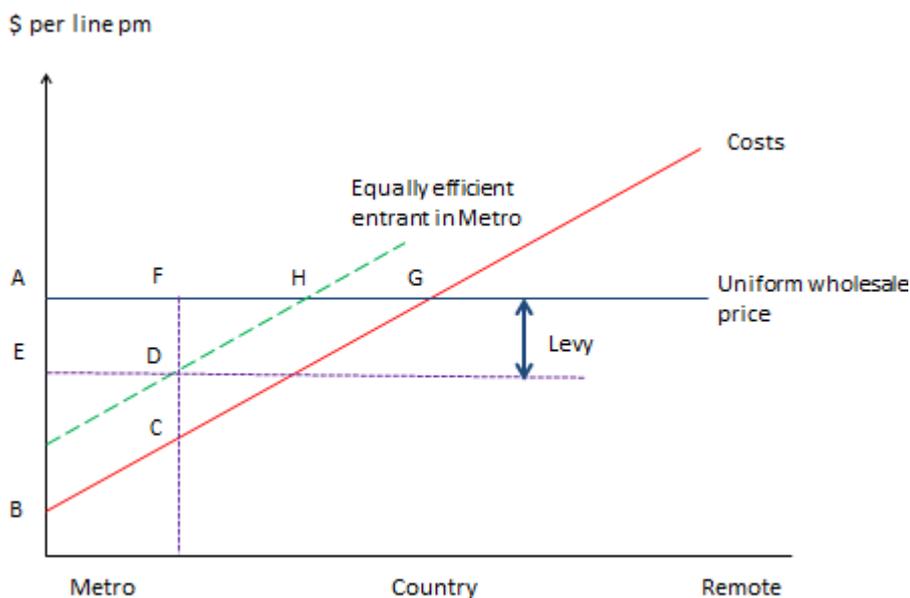
The Bureau of Communications Research (BCR), based in the Department of Communications, has overlooked some key issues and opportunities in its current [consultation paper](#).

The main concerns with the BCR paper are that it:

- Shows little awareness of the literature and relevance of different cost concepts
- Is too narrowly focussed on the levy when there are complementary funding options
- Has completely ignored the privatisation of the obligation to serve non-commercial users
- Has under-estimated the importance of mobile broadband as an NBN substitute
- Rejects the notion of broadening the base of the levy to include mobile broadband

A detailed explanation of the above and other issues is in my [submission](#) to the BCR. But there are some ideas of interest to a wider audience.

First, a flat levy is not a panacea. The chart shows a geographically uniform wholesale price, A. The difference between line A and the red curve is the contribution that each customer is making to covering the costs of customers to the right of G. The total subsidy is the area ABG.



Without a levy, an equally efficient (same red cost curve) entrant in metro areas can profitably under-cut NBN Co.'s uniform price for all customers to the left of G; and so could entrants with higher costs for many of the same customers.

Adding the levy (=F-D) raises costs from the red curve to the green dotted line but the competitor can still target users to the left of H.

This is why the NBN might lower prices from A to E for some customers losing AEDF in but saving EBCD. This is not predatory because it is not pricing below cost (and the levy is $D-C=F-D$). But, it is frightening; the NBN needs all the revenue it can keep.

Second, while the levy will not increase the costs to users of the NBN (it simply makes the implicit transfer explicit), there are non-NBN fixed broadband access providers targeting retail and small

business customers whose costs will rise because they would be subject to the levy. The levy is intended to level the playing field and discourage inefficient investment (TPG?) but what about those with sunk investments, like iinet with its HFC networks?

Third, the BCR does not think that mobile broadband is an immediate substitute for fixed broadband networks. Really? We should be getting evidence now of what customers are choosing mobile-only over migration to the NBN. What does it say? Isn't there already evidence of fixed-mobile substitution even without the NBN? It is surely a "key scenario" that should be explored in the context of forecasts to 2040?

Fourth, there is absolutely no mention of privatisation of the fixed wireless and satellite services in the consultation paper even though it was a major focus of the Vertigan Market and Regulatory Report; which argued that subsidies should only be allowed if they could be market tested (i.e. subject to tender in the privatisation process). The government's response to Vertigan requires NBN to maintain separate accounts for its networks and has indicated that privatisation is an option for the future when more immediate issues for the NBN have been resolved.

Fifth, neither Vertigan nor the BCR have a problem with NBN Co.'s initial cost recovery account (ICRA) although deferred revenue has been allowed only in a [few cases](#) as temporary measure. In

the case of the NBN, there is still over \$5 billion to be collected at 2040. In the chart (derived from the last NBN plan to 2040) there is over \$30 billion difference between the dotted (no ICRA) and solid blue (plan) lines.

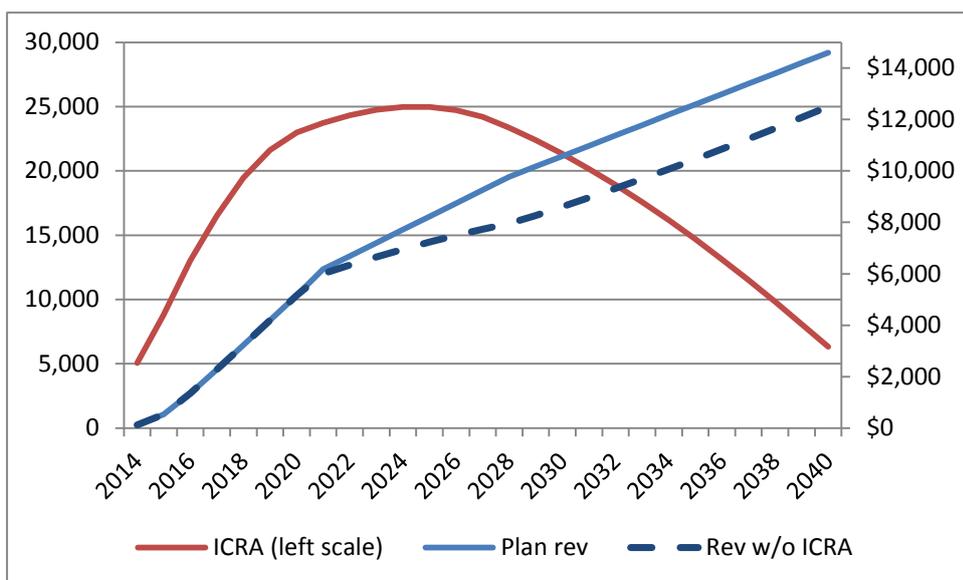
The effect of deferring revenues is to increase measured net avoidable costs.

Should some of the ICRA be allocated to fixed wireless and

satellite services and would the regulated right to recover these unclaimed revenues be transferable on the privatisation of the associated services?

Sixth, while the levy may help address horizontal (geographical) equity it cannot also address vertical equity (poor household needs) too. The BCR offers no thoughts on its approach to equity and Vertigan could only suggest a reliance on price capping. I have [suggested](#) that NBN could offer an entry level plan that would do that (and hold voice-only users).

There are 28 wide ranging questions in the BCR consultation paper. But, it leaves a lot of gaps and a lot of work to do.



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