ECONOMUSE

Broadband news – Take-up and TPG Plan B or C?

Is the NBN is in more trouble than we are told?.

The good news (e.g. speeds and achievement of roll-out targets) is never hard to get but nbn™ is less forthcoming with the bad news (e.g. cost over-runs, take-up and mobile substitution).

First, here is the good news. The multi-technology mix NBN model is kicking some goals. The new satellite is in place (and in service in April), the roll-out is ramping-up (and will accelerate with FTTN deployments) and the users now on FTTN have satisfaction ratings as high as those on FTTP.

The bad news is that we still do not know what the impact wireless-only household is having on take-up (and we should be told) and TPG is sneaking up on the NBN with a new plan.

At the end of last month, almost 50% of serviceable brownfield premises were activated on the NBN. Given the strategic risk to nbn™'s financial viability, we need to know what the activation rate is after each regions has passed its compulsory disconnection rate. There are 54 such regions now with more than 300,000 premises.

The 2016 nbn™ Corporate Plan reckons that only 15% of premises might be mobile-only (p48). And there is, we are told, a risk mitigation strategy that includes "*Residential entry-level product/pricing to ensure competitiveness vs mobile*" (p77). I can hardly wait to see that.

In the half year report last week, nbn™ was happy to report ARPU of $43 for the six months ended 31 December 2015 versus $39 per month in the corresponding six month period a year ago. If that was due to faster speeds being selected, that would be good news. But "*The increase in ARPU was primarily due to greater demand for CVC capacity*". Given the current concerns over CVC pricing, I think we need nbn™ to unpack the contribution of CVC revenues in ARPU (simply done by dividing the change in CVC revenue by the average number of active premises). And, CVC prices need to fall more quickly in line with increases in usage.

This week, the results of the spectrum auctions were reported. The big surprises were the appearance of TPG and the non-appearance of nbn™.

TPG is not a mobile operator and bought 1800MHz spectrum for $88 million in 10 regional markets; complementing the spectrum it bought in May 2013 for $13.5 million, but has not yet used.

In November 2014, I speculated that TPG has a "Plan B". Plan A was the fibre-to-the-basement (FTTB) initiative while Plan B could be about wireless broadband (i.e. circumventing the NBN): "*We're not going to build a traditional mobile network because it's too expensive*" (David Teoh, September 2013).

As a reseller of mobile networks, TPG now offers 5GB for $40 to its mobile customers (and unlimited data for $70 to its retail FTTB customers). An idea of what TPG might do next is provided by Optus which is now offering 60GB of Home Wireless Broadband on a SIM activated wireless modem at 12/1 Mbps in 2300MHz areas for just $80 per month (while offering 200GB for $70 on its NBN plan). That's not bad when the average monthly download on non-NBN fixed broadband networks is about 70GB (June quarter 2015). Watch-out for TPG!

The 2014 Carrier Licence Condition was introduced to address TPG's Plan A. While the initial FTTB roll-out was aimed at just 500,000 premises, the Department estimated that about 1 million multi-dwelling units or business centres were within 1Km of TPG networks. So, FTTB was a real threat to the NBN. The Licence Condition affects only designated fixed line networks (i.e. Plan B is not affected and will affect a greater number of premises).

Incidentally, the Licence Condition expires in December and the USO levy that is supposed to be the longer term solution has not yet been implemented.

The recommendation from the Bureau of Communications Research is that a $6 per month levy should apply only to fixed line broadband lines: *"Mobile broadband services would not be included in these arrangements, as they are not considered to be close substitutes to fixed line services"*. That seems to let Plan B off the hook. What about hybrid or converged broadband networks? For example, to take the load of its wireless network, TPG could deploy small cells across three or four adjoining premises that share just one NBN fixed line.

But, there is another possibility. Back in 2013, TPG resold the Optus mobile service. But, with the alliance with Vodafone (where TPG is providing backhaul) it is migrating its resold mobile customers to Vodafone. Maybe TPG has a Plan C which could lead (eventually) to a formal merger with Vodafone?

Returning to the auction, the absence of nbn™ from the spectrum auction was also a surprise because nbn™ has a coverage gap due to lack of spectrum: *"The spectrum gap affects around 80,000 premises. The affected sites are located on the fringes of Canberra and the five mainland State capital cities where Optus is the primary holder of 2.3GHz and 3.4GHz spectrum…. While NBN Co could use other delivery technologies like satellite and FTTN in these areas, these cannot entirely meet the shortfall in a cost effective manner and cannot meet the need within the amount provided for in the Corporate Plan. Specifically, extending the fixed line footprint is likely to be costly, and the LTSS does not have sufficient capacity"* (Fixed Wireless and Satellite Review, May 2014).

By the end of December, the NBN had used more than half of the equity injections promised by the Commonwealth and is looking to raise $9.8 billion needed in FY2018 "*without explicit Commonwealth support*" (p70, half year report). Is that possible without a guarantee?

John de Ridder