ECONOMUSE

The blame game – Cutting the Gordian Knot

VHA's solution does not cut it

Who is to blame for poor speed and poor performance on the NBN? The pricing of the NBN is certainly knotted. It is more complex than it needs to be and that complexity leads to the current arguments about speed and performance. Slicing through that complexity can get nbn™ off the hook.

First, there are at least 7 speed tiers (AVCs) offered on the NBN. The idea of pricing up the demand curve is not working. At the end of March, over 80% of the 1.8m fixed network users were on no more than 25Mbps. The cost to provide 100Mbps is no more than for 12Mbps.

Second, submissions to the ACC's market study say that retail service providers (RSPs) are reluctant to sell higher speeds because that will mean they would have to provision more costly CVC capacity. Initially, such capacity was priced at $20 per Mbps with the promise to reduce it over time. Currently, the list price is $17.50 per Mbps with a minimum of 100 Mbps going up in 50Mbps steps to 300 Mbps then 100 Mbps steps in purchased capacity.

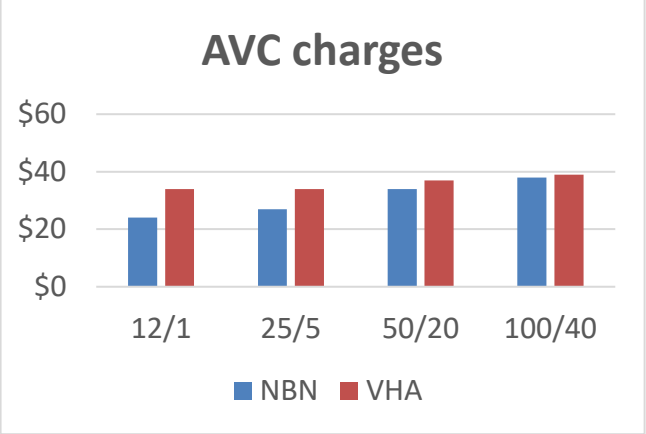
Third, I argued 4 years ago that this stepped capacity approach discriminates against smaller RSPs and predicted that *"The world that would emerge from the current NBN Co. pricing regime would emulate the past. It would lead to further consolidation in the access - seeker market and less pressure on retail margins, making broadband less affordable than it could be*".

Fourth, the large RSPs have complained continuously about the cost of CVCs. The basic price was lowered from $20 to $17.50 per Mbps in 2015, and is still there. But, after at least 3 secret (RSPs only) consultation papers, the prices now include dimension based discounts – more tiers, more complexity. But, CVC pricing remains a bone of contention with RSPs.

Fifth, CVC pricing encourages RSPs to skimp on provisioning to cut costs, degrading the end user experience. In 2014, CVC provisioning in the busy hour averaged 400 Kbps per user; translating into about $8/user/month. If customers average one HD movie every other night, the RSP needs CVC capacity of at least 2 Mbps/user costing $10.25 per Mbps after the discount for around $20/user/month. The Tasmanian RSP, Launtel, claims that it is providing 3 Mbps/user now on FFTN (and 20 Mbps/user to support its gigibit speed plans on FTTP) while "*Most RSPs are less than 1 Mbps – these are not published figures, so I am just kind of figuring that out from what I know about how the network works"* (Launtel CEO, Damian Ivereigh).

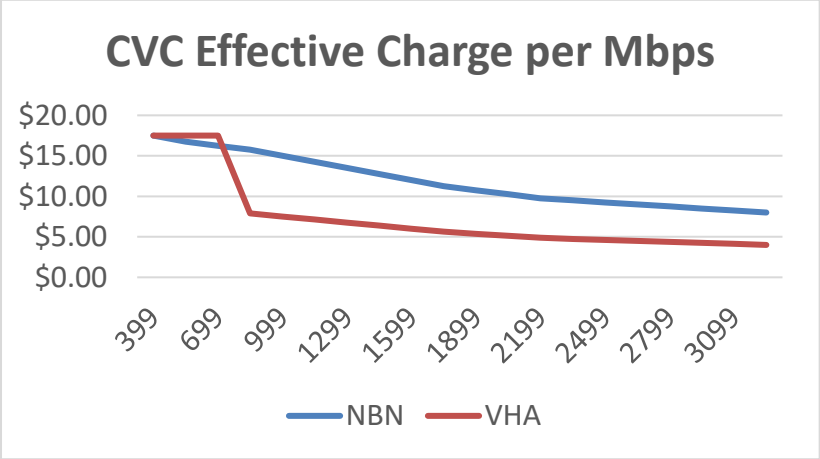
Bill Morrow (nbn™ CEO) said last week that *"we are thinking can we structure the CVC (Connectivity Virtual Circuit charge) and the AVC (monthly access charge) to have a minimum assurance of a certain quality of product?"* (AFR, 24 July). I think the nbn™ is only going to tie itself into more knots.

VHA's submission to nbn™ last week identifies the issues correctly. But its proposed solution will make some things worse. In particular, raising the 12/1 AVC by $10 pm will make the NBN unaffordable. There could be over a million voice-only services on the NBN. Of course, there is always mobile voice (and VHA) but these users are valuable to nbn™ as they help cover its fixed costs.



The 2010 Corporate Plan assumed that only 16.3% of occupied households would not take an NBN service by 2025. How does that look now since in the latest results Bill Morrow says that "*there are currently around three in four homes and businesses who have signed-up to services over the nbn™ network following the 18 month window they are provided to make the switch*"? That sounds like around 25% have opted out of the NBN when forced to choose.

VHA proposes a minimum level of provisioning of 700 to 849 Kbps; which might be what Bill Morrow was hinting at. But that will have to keep lifting and the price cuts (see chart) will not satisfy those who were calling for $1/Mbps.



VHA is just tinkering at the edges of the pricing knot.

As VHA and nbn™ say, the CVC is priced as bandwidth but it is only a pricing construct. It is a poor proxy for usage. The real thing, cents per GB of traffic, is simple, not lumpy and it removes the incentive to degrade the network by under-provisioning. This way, the backhaul contention is sheeted home to RSP networks. The cents/GB fee falls with the growth in data in order to keep within a regulated revenue envelope (with issues of its own for another day). In 2008 it would have been around $1/GB but is now under 10 cents.

The simple solution requires only a standard plan and an entry level plan with different usage fees such that there is a natural migration when usage exceeds 10 GB per month. This permits very affordable retail prices (see my ACCAN report).

Simplifying pricing is would cut the Gordian knot tying-up the NBN and unleash its potential. All we need now is Alexander – or Bill.

John de Ridder