

ECONOMUSE

NBN – “a pea and thimble” trick

Or revenue rebalancing with bundles

On 14 December, the nbn [announced](#) “dramatic discounts” on its wholesale access prices. The major innovation is bundling the AVC and CVC charge together. It looks like a “pea and thimble” exercise; or, as the nbn might prefer to describe it, an AVC/CVC revenue rebalancing exercise.

Also, the proposed revision to the entry-level plan is disappointing.

On this 50 Mbps example, the bundle loses the nbn \$24,174 in CVC fees but gains an extra \$23,100 in AVC fees. This is a net increase of \$1,074 or 4 cents per user pm.

The bundled 2Mbps/user might be sufficient now (and double the average today, according to [Bill Morrow](#)). But, it is a moving target. Mark Dioguardi (then CTO of iiNet) said back in 2015 that he needed 2Mbps/user of CVC to stream one HD movie streaming at 4 Mbps every other night and expected that in future 8Mbps/user would be needed (See [Are CVCs “Evil, stupid and counterproductive”?](#)).

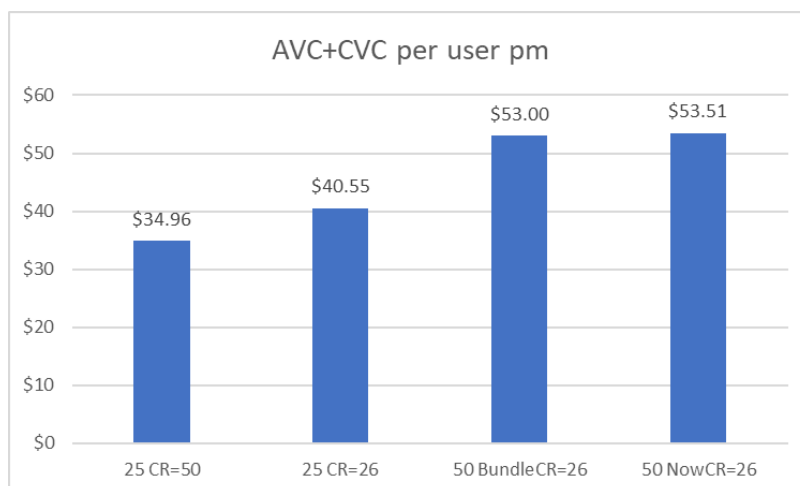
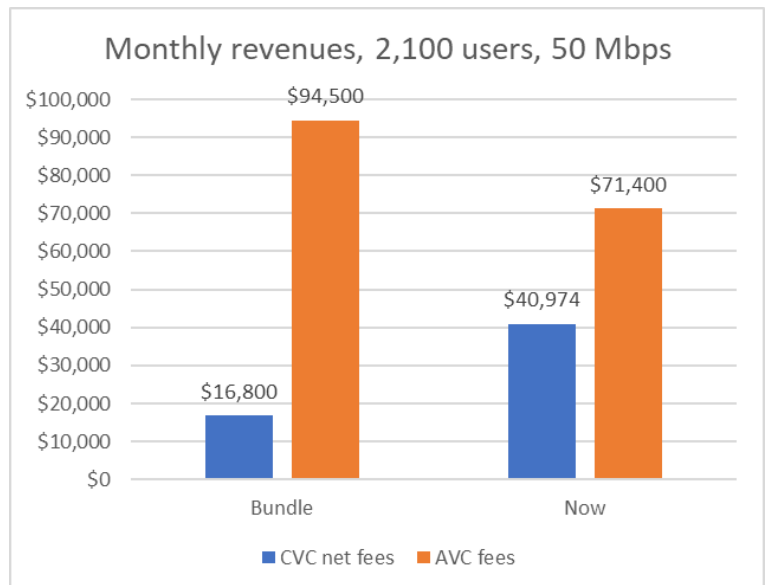
My fear is that rebalancing might morph into a high AVC alone; which the nbn agrees is bad for affordability.

Is the 50 Bundle attractive enough to entice 25 Mbps AVC users to migrate to it and the embedded higher provisioning levels? Bill Morrow reports (Media release, 14 December 2017) that “Today,

more than 80 per cent of end users are on plans based on the nbn 25 wholesale speed tier or lower”.

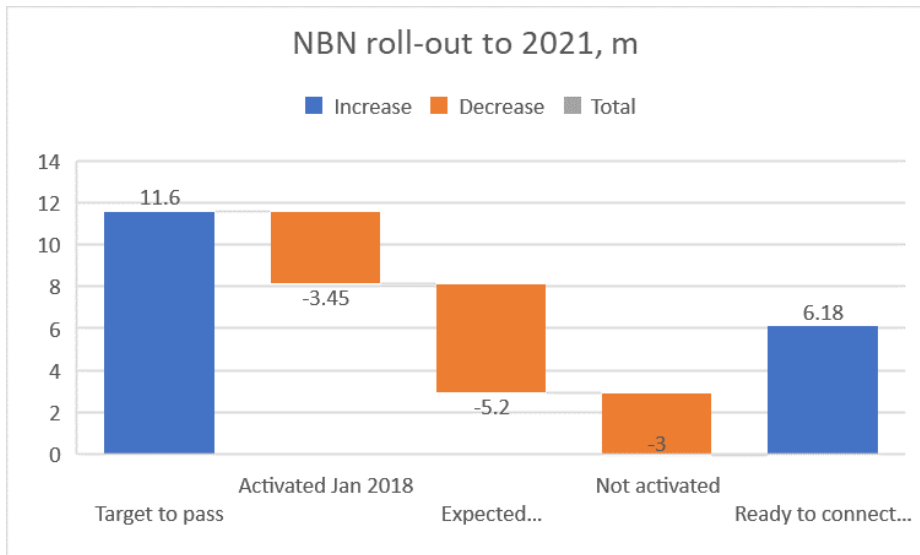
My estimate is that ISPs save \$18/user/pm by staying on the 25 Mbps AVC at a high contention ratio of 50:1 rather than moving to 50 Mbps Bundle (see chart). The 2 Mbps/user CVC bundled with the nbn 50 plan is equivalent to a contention ratio of 26. Running the nbn 25 Mbps speed tier at

the same contention ratio costs just over \$40 which is still \$13 cheaper than the 50 Bundle. But, the nbn has doubled the speed on the nbn 25 Mbps tier between now and the implementation of



the new prices. It should be no surprise that [TPG is selling](#) the higher speed at the same price as its discontinued nbn 25 Mbps service. Is this temporary? Will it revert to 25 Mbps when the transition period ends? Maybe TPG is counting on the nbn to extend the transition prices indefinitely? Maybe it will with nbn 50 becoming standard as the nbn actively discourages slower speeds which perform badly and don't meet its ARPU expectations.

The next three years will be critical for the nbn. There are currently 3.5m premises activated with nearly a million more expected by the end of June 2018 ([Corporate Plan 2018](#), p9). The nbn is



hoping for a 74% take-up rate so that leaves another 5.2m to activate.

The nbn 12 entry-level plan is key to holding users. I recall how competition for international calls (IDD) stopped abruptly. IDD was a profitable service and a key focus for Optus leading into the 1993 ballots in which users were forced to choose whether Optus or Telstra would own

their dial-tone (over-ride continued to be available). My point is that once the ballots (conducted with the same ferocity as a general election) were over, market shares stabilised and normal business resumed.

So the nbn faces a moment of truth when users decide whether to opt-in or default to mobile. The nbn has not published take-up rates for any area after the 18 month grace period has elapsed.

In the proposed changes announced, it seems that only a token effort has been made to address low-end affordable pricing – a \$2/users/pm reduction. That is, \$22 wholesale before retail costs, profit and GST. Assuming a 30 percent mark-up, the retail price would be over \$30 pm. That has to compete with BYO mobile offers as low as \$10 pm (e.g. amaysim on the Optus network) which includes 1 GB of data and unlimited national calls and SMS.

The nbn's entry-level plan may be aimed at voice-only users, but it should not preclude them from tasting broadband. However, the proposed nbn 12 plan assumes that 50 Kbps per user is sufficient for *“telephony and basic internet usage such as email”*. The nbn has not stated publicly how greater usage would be charged. But it must be low enough to permit more than email. As Andrew Penn (Telstra CEO) noted (SMH 12 January 2018), *“There is so much that is now online, done online, there's so many things that people need to engage with today digitally, that it is critical everybody have access to broadband because people will not be able to function without it.”*

Will these minor changes be enough to keep mobile voice and mobile broadband competition at bay? I doubt it.

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