

## The NBN Legacy: Rising Prices and Falling Global Rankings

Remember when the NBN was going to bring Australia a feast of fast and affordable broadband? Then how is it that Australia is 82<sup>nd</sup> in the world and falling ever further behind? And how is it that broadband bills keep rising in Australia while falling around the world?

Elsewhere speeds generally keep rising and monthly prices keep falling. In June 2020 Ookla ranked Australia's fixed broadband speeds at 62<sup>nd</sup> in the world at 52Mbps. But in June 2023 Australia is ranked 82<sup>nd</sup> with a speed of 54Mbps.

Point Topic's global tariff reports show monthly broadband costs for residential customers fell 10.1% in the two years to Q4 2022 (across copper, cable and fibre services).

Here, Figure 2 from the ACCC Market Communications Report shows that the median retail price increased by 11.2% in Australia in the two years to June 2022.

The trends in speed and costs are not independent. The combination of speed based pricing and rising charges

means that Australian customers are not willing, and perhaps not financially able, to take advantage of the speed the network is capable of. Australia has a superfast NBN network priced beyond the reach of many and its capabilities will remain unused for decades on the current path.

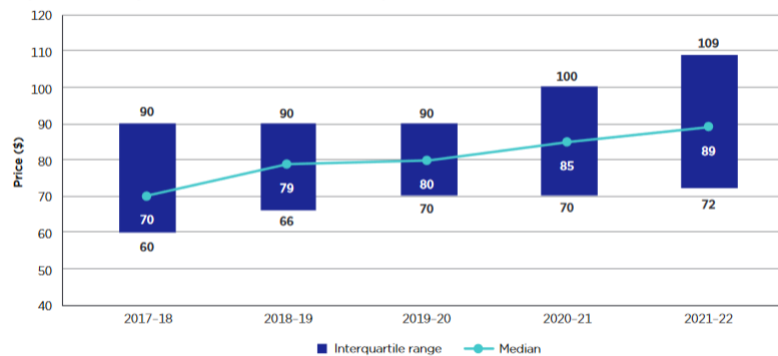
It could have been so different. We have been advocating since the inception of the NBN for no consumer speed tiers. The best available speed on the day for any technology could have been made available – as is done with mobile networks.

NBN says it is on track to enable up to 10 million premises (around 90 per cent of premises on the Fixed Line network) to access the Home Ultrafast speed tier, which is capable of achieving peak download speeds of 500 Mbps and close to 1 Gbps by the end of 2025. With better pricing, we could be near the top of Ookla's global rankings. We could be ahead of New Zealand (16<sup>th</sup> 155mbps) and the United States (7<sup>th</sup> 205mbps). It is nice to have a trophy network, but people using fast services at affordable prices would be better.

Sadly, the prospect of affordable fixed broadband is receding. A June submission on the draft Special Access Undertaking (SAU) from ACCAN shows it has given up on the NBN doing anything meaningful for low income users. And affordability is going to get worse as the NBN increasingly rebalances away from CVC to AVC pricing.

Again, it could have been so different. We have shown over many years – even before our submission to the NBN Regulatory Review in 2014 - how a flat fixed rate (single AVC) with charges for the volume of traffic could be used to offer an affordable broadband service. The CVC pricing construct turned a simple volume pricing approach into a leased-line look-alike that has caused endless problems for the NBN and its users ever since.

Figure 2: Changes in NBN broadband advertised prices from 2017-18 to 2021-22



Beyond the problems in the pricing structure for speeds and affordability discussed above, the level of prices has been an issue from the beginning when the NBN initially set its access prices to match those on Telstra's copper network.

The 2011 Corporate plan disclosed the intent to increase the wholesale ARPU to \$100 per month in 2040. The December 2022 ARPU is A\$47 pm. NBN can continue to increase this as NBN revenues remain significantly less than allowed. In FY2022, the shortfall was \$1.1 billion. This goes into the so-called initial cost recovery account (ICRA) which increased by \$2.9 billion to \$39 billion including cumulative interest on the balance of the ICRA in FY22. NBN revenues can exceed the revenues allowed by the regulatory model by drawing down the ICRA. The present price controls are impotent.

In the December 2022 variation of its SAU, the NBN offered to cap the ICRA at \$12.5 billion – a reduction of \$31.5 billion from its \$44 billion estimate for June 2023. This offer is not going to constrain price increases by the NBN while the ICRA exists. It should be abolished.

And there should be a substantial asset write down because that's where the pressure to raise prices comes from once the ICRA is abolished. A large enough asset write down would reduce the level of permitted revenue and could drive real affordability. If the regulated asset base (RAB) of \$30 billion were reduced by \$10 billion, actual revenues would match allowed revenues. A larger write down would force prices down as actual revenues would be capped by the allowed revenue number.

There is some scope to do this. The government's equity stake in NBN Co is \$29.5 billion with the new Labor Government committed to providing an additional \$2.4 billion.

We need the NBN to prepare a cash-flow forecast to 2040 that does not assume that past losses (i.e. the ICRA) can be recovered somewhere in the distant future by fanciful ARPUs. It needs to identify the losses associated with fixed wireless and satellite services so that the IRR can be determined with and without (i.e. assumed subsidies) those losses and to estimate what write down would need to be to get the desired IRR. This would result in a lower trajectory for NBN ARPU that, hopefully, will allow it to provide an affordable service in the long term and slow Australia's steady tumble down the global broadband rankings.

Bob James and John de Ridder

**Footnote:** Australia's mobile networks have been infected with the fixed broadband problems – falling global ranking and growing monthly fees. The destruction of the profitability of the fixed broadband businesses of the owners of all mobile networks is likely the source of this infection. Restoring fixed broadband profitability would likely impact mobile performance and pricing as well.