



REAL WORLD
networks

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Part of the Real World Group of companies

17th July 2020

Mr Ed Seymour and Mr Stephen Farago
Australian Competition and Consumer Commission

Re: Consultation on Superfast broadband network class exemption and deemed functional separation undertaking

Dear Mr Seymour and Mr Farago,

Thank you for the opportunity to respond to this consultation process.

Real World Networks operates a number of small greenfield sites around Australia using a mix of FTTP and FTTB technologies. While we currently operate less than 2,000 SIOs we are particularly interested in this process as it opens a pathway for us to facilitate future growth within our business and fuel competition within our RSP markets.

While we have strong relationships with our RSP partners, we recognise that they do not always have commercial drives to offer the new and innovative products that tenants in our developments seek. This means that they are often slow to introduce new products (such as enhanced service levels or higher bandwidth tiers) due to the relative cost of supporting a small network operator such as ourselves.

The changes to this process would provide the opportunity for us to deliver these products (which are currently available to our RSPs) in a timelier manner, and further drive competition and positive outcomes for the consumers within our sites.

Having reviewed the proposed exemptions, our primary concern is that the low customer number threshold for applicability of the class exemption and the significant costs of adhering to the proposed strict levels of functional separation across a broad range of business functions creates a hurdle that will result in emerging and small fixed line network operators (such as ourselves) being effectively priced out of the retail market by high operational costs and as such being unable to afford to sell retail services to residential customers on their own networks.

We consider that this is contrary to the promotion of competition and detrimental to the long term interests of end users of telecommunications services that will benefit from access to a diverse range of infrastructure operators, and is, in fact a disincentive for us to grow our number of serviced premises beyond the 2000 mark.

We submit that the 2000 SIO threshold for the small network class exemption should automatically increase upon a higher number being set in Ministerial regulations.

While we agree that the proposed functional separation requirements are appropriate for larger carriers, we consider that the ACCC's proposed functional separation requirements present

significant costs that will be a major difficulty and deterrent for smaller providers such as ourselves to operate in both wholesale and retail markets.

Our preliminary modelling suggests that once operational costs (which are primarily defined as backhaul, data centre access, service support and existing marketing costs) are met, based on providing services at nbn equivalent pricing would have a NET operating margin of between \$10,000 and \$25,000 per month at 2000 services.

The additional cost of meeting all the requirements of the functional separation undertaking (most notably separate office premises, separate sales and product teams, separation of support staff and separation of management staff) would very quickly erode the remaining margin and provide a disincentive to offering competitive services within this space.

As a result, we submit that there should be different deemed undertakings based on a carrier's size.

It will be extremely difficult for a small carrier to grow from the 2000 or possibly 12,000 SIOs under a class exemption to a size that is sufficient to viably fund the cost of operating functionally separated wholesale and retail arms in a manner that would comply with the ACCC's proposed deemed standard functional separation undertaking.

We therefore suggest that the ACCC provide two levels of deemed standard undertaking:

- a less onerous undertaking that applies to small carriers that do not fall within the small carrier class exemption but have less than a set threshold of residential customers on its own network (**small carrier functional separation undertaking**); and
- an undertaking that applies to carriers that have more than the set threshold of residential customers on their own network. This undertaking could be in the form currently proposed by the ACCC.

We submit that a moderate number of services provided on the retail network, such as 1000, would be sufficient to allow the proposed functional separation to be financially viable for a carrier to proceed.

We further submit that the small carrier functional separation undertaking should be drafted to incorporate sufficient operational flexibility to allow the small carrier to grow and compete but to also maintain sufficient demarcation between the wholesale and retail divisions to ensure that the carrier's retail division does not have a competitive advantage over the wholesale division's retail service providers.

If you have any questions regarding any of our comments, we would be more than happy to engage in further discussion regarding these.

Kind regards,

Andrew Yager
Director, Real World Networks Pty Ltd