

Submission to ACCC DTCS 2018 consultation

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I own and operate Launtel, a relatively small NBN service provider in Tasmania. Almost our entire market is in Tasmania so we are heavily affected by the pricing of both intra-state and across Bass Strait bandwidth.

I have two points I would like to make:-

1Gb limit now too low given current traffic

The current maximum of 1Gb, we believe, is now too low a limit for the DTCS to not apply. We are currently purchasing 2.5Gb and there is no way we could be considered a large provider able to negotiate good rates from the cable operators. In the NBN space it is not unreasonable to allocate 2Mb per connection – this puts 1Gb at just 500 customers.

“Wet section” uplift to Tasmania does not promote competition

We believe that currently the large uplift of pricing for the “wet section” across Bass Strait (while intended to promote competition in the cable operator market) has had the opposite effect in the retail internet market. We strongly believe the 2016 DTCS determination has failed the LTIE test for Tasmania.

No new players have entered or show any significant signs of entering the cable market

The cost of laying new cables across Bass Strait is extremely high, yet the bandwidth market in Tasmania is not large (approx 600Gb) – most of which is not supplied under the DTCS anyway (I.e in blocks larger than 1Gb). For a new entrant to lay a new cable to Tasmania, they would have to be confident that the market will grow to accommodate them and they would not just be taking business from the existing operators. Without a growth in overall bandwidth it would simply lead to higher overall costs (capital etc) being paid for by the same amount of bandwidth sold.

We believe this is such a massive barrier to entry that we are unlikely to see a new operator enter the market. In other words the “wet section” uplift does not, in practice, actually create more competition in the cable operator space.

National pricing leads to poor outcomes in the retail space for Tasmania

Most (if not all) national RSPs have standardised retail pricing across Australia. Generally the differences in backhaul costs to different places is considered minimal enough that they can just be spread across the RSPs entire business and the same retail price is charged. However, this backhaul cost is not true with Tasmania; where the costs are often many times higher. In this situation the RSP must either have a lower quality network in Tasmania (more congested or less redundancy), decide not to offer services to Tasmania, or deliberately run at a loss (i.e. Tasmanian internet connections are subsidised by mainland ones).

As a small RSP in Tasmania we are faced with this same choice, except that the last option of running at a loss is not available to us given that we have no mainland portion to provide for that cross subsidy. We are therefore left attempting to compete against companies that are either making a loss or at least running with much smaller margins. We have had to restrict our services to those willing to pay more or support a local business.

High prices leads to reduced bandwidth purchases

One of the biggest barriers to the overall reduction in price in bandwidth to Tasmania is the relatively low amount of bandwidth purchased. Given that much of the cable operators costs (or required returns) are fixed regardless of bandwidth sold (in other words the incremental costs per Mb are very low), anything that can be done to increase bandwidth purchased overall will improve the competitive situation. This has occurred repeatedly on the Mainland. Having a high DTCS price for Tasmania does the opposite.

Current DTCS pricing leads to poor LTIE outcomes in Tasmania

We contend that this extra cost of bandwidth across Bass Strait negatively impacts the LTIE either directly or indirectly. Directly by being sold a poorer quality network or inability to access some providers; and indirectly by having to pay more for their internet.

The soon to be implemented NBN 50 bundle is setting the benchmark for the standard residential grade NBN connection. It includes 2Mb of CVC and is being sold by NBN for \$45/month. Let us assume that IP Transit or peering costs \$10/Mb on average.

We note that the 2016 DTCS price for 500Mb from Hobart to Melbourne is \$12,202/month (\$24.40/Mb). The same sized “tail-end regional” connection is \$2,762/month (\$5.50/Mb).

The direct cost price of providing the NBN50 bundle to a regional area is: $45 + 2*(5.50+10) = \$76/\text{month}$

The direct cost price of providing the same bundle in Tasmania is: $45 + 2*(24.40+10) = \$113.80/\text{month}$

That is an increase of \$37.80 – almost 50% - in the direct costs that someone (RSP or end user) has to pay per connection per month.

It should also be noted that we have been finding that, to offer an “unlimited” (no data cap) connection, becoming the standard on the mainland, requires in excess of 3Mb per customer – this widens the gap in the above calculation even further.

As bandwidth demand increases, Tasmania is in danger of becoming stranded as a high priced and/or poor quality internet region of Australia. This is particularly ironic given that it has the highest penetration of NBN FTTP and thus should have some of the best internet!

Evidence for our submission:-

Launtel opened residential services in October 2017, priced similar to the market. After rapid growth, by January it was clear the growth was not sustainable at the current prices. We had to reprice the 50/20 (the entry level internet) at \$105/month for a 750GB download service – well above the market.

Aussie Broadband initially opened up services in Tasmania in September 2017, by April 2018 the whole of Tasmania is on “stop-sell” awaiting a bandwidth upgrade. This has been slated (according to their website) for 31st July – a significantly longer period than normal. Phil Britt (CEO) has written on Whirlpool that Telstra charge “drug money” for the link - <https://forums.whirlpool.net.au/archive/2716701#r56143304> and they are expecting to negotiate for better pricing.

Phil Britt has stated that they have no plans to upgrade to do the same 10Gb links or provide redundant links that they are doing on the mainland due to their cost – i.e. they are providing a lower quality network.

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