



Modified Floor & Ceiling Proposal

SAU Variation Industry Workshop – 14 July 2023

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Agenda



- Pricing in the context of the Draft Decision
- Overview of Modified Floor & Ceiling proposal
- Impacts
- Transitional credit
- Assessment against regulatory objectives
- Indicative timing for SAU Variation and WBA5
- Concluding remarks

Context | Draft Decision

Draft Decision noted several features of the pricing construct to be reasonable and responsive to stakeholder feedback

- 1 Revenue outcomes** – The Draft Decision indicated that nbn's overall revenue outcomes over the First Regulatory Cycle were reasonable. Therefore, **nbn** notes that any changes to the pricing construct must be revenue neutral
- 2 Transition to 'AVC-only' (\$0 CVC) pricing on TC-4 lower speed tiers by no later than 1 July 2026** through a progressive rebalancing of CVC and AVC charges. Simplified CVC management as the pricing framework transitions from provisioned to utilised bandwidth
- 3 TC-4 AVC-only charges** on higher speed tiers (100Mbps and above)
- 4 Weighted Average Price Cap (WAPC)** or 'basket' price control for all Core **nbn** services to replace individual price controls, capped at CPI during the initial phase to ensure **nbn**'s prices recover building block costs (and expected to be between FY30-32), and CPI-X thereafter
- 5 Additional price controls and price certainty commitments**, including sub-caps, annual tariff list, 3-year pricing roadmap, pricing principles, pricing intention statement, price relativity restriction, and constraints on discounting

Context | Overview of 3 variants to resolve residual cost certainty



nbn's modified Floor & Ceiling options aim to respond to feedback received as part of nbn's initial proposal

How we got here

- Cost certainty has been a core theme from stakeholders over last 2 years and raised formally in RSP submissions from Nov 22 through to June 23
- nbn proposed, and ACCC viewed as reasonable, an immediate transition to AVC-only for 100 Mbps+ speed tiers and 3-year transition for 50 Mbps and lower speed tiers
- ACCC Draft Decision covered the merits of a price ceiling for the 50 Mbps service to promote **residual** cost certainty
- nbn developed a Floor & Ceiling pricing proposal at a per-service level (\$55 ceiling & \$50 floor)
- Responses to Initial Floor & Ceiling Proposal indicated several RSPs will engage in high levels of wholesale-only optimisation which is an unintended consequence of the November proposal



	Initial Floor & Ceiling Proposal	Modified Proposal – Option 1	Modified Proposal – Option 2	Modified Proposal – Option 3
Ceiling			\$55	
Floor	\$50	\$48	\$50	\$49
Overage price (3-year transition)	FY24: \$8 FY25: \$7 FY26: \$6	FY24: \$8 FY25: \$7 FY26: \$6	FY24: \$5.50 FY25: \$4.50 FY26: \$3.50	FY24: \$6 FY25: \$5 FY26: \$4
50Mbps CVC inclusion	2.5Mbps	2.6Mbps	3.5Mbps	2.6Mbps

Impact analysis

nbn assessed ARPU impacts of our latest proposal against 3 RSP archetypes

Type 1: RSPs with high Entry Level customer base

- Benefits most from optimisation, given the large pool of overage generated by entry level customers.
- Sophisticated wholesale optimisation removes friction from optimising, enabling more targeted migrations.

Type 2: RSPs with low Entry Level customer base

- While RSPs may be able to wholesale optimise in a sophisticated way, the total potential benefit is limited due to smaller cohort of customers on entry level.
- RSPs would potentially need to acquire more entry level customers to be cost competitive

Type 3: RSPs that lack scale or capability to wholesale optimise

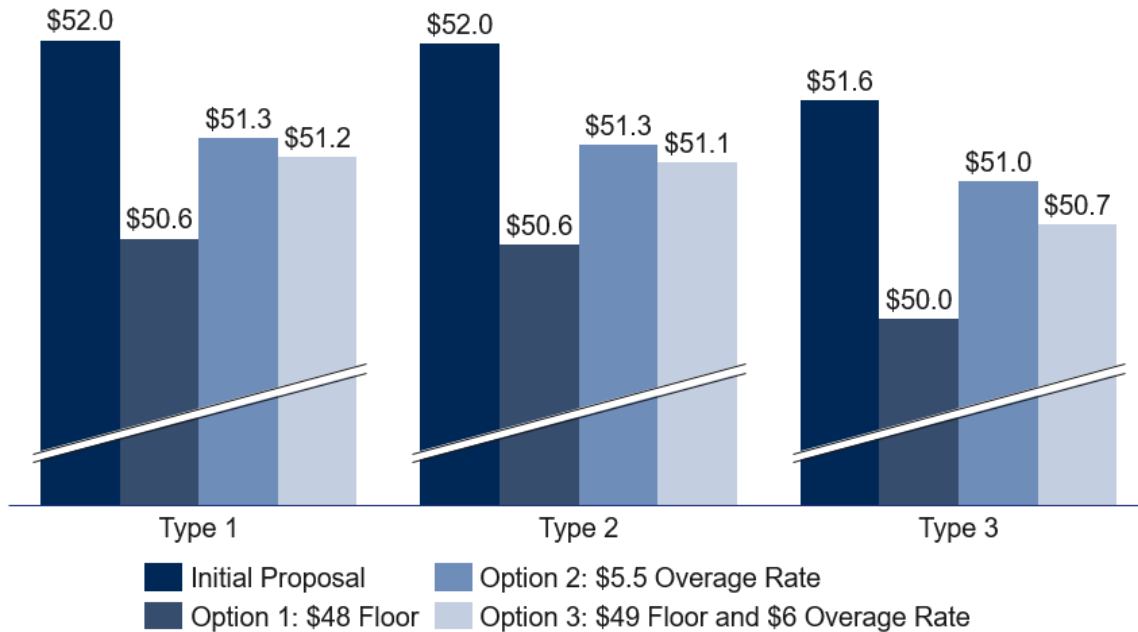
- RSPs without the capability to optimise at the wholesale level (via high-frequency daily migrations) or lack resources to identify high usage consumers would be at a cost disadvantage to Type 1 and Type 2 RSPs.

RSP Impact analysis

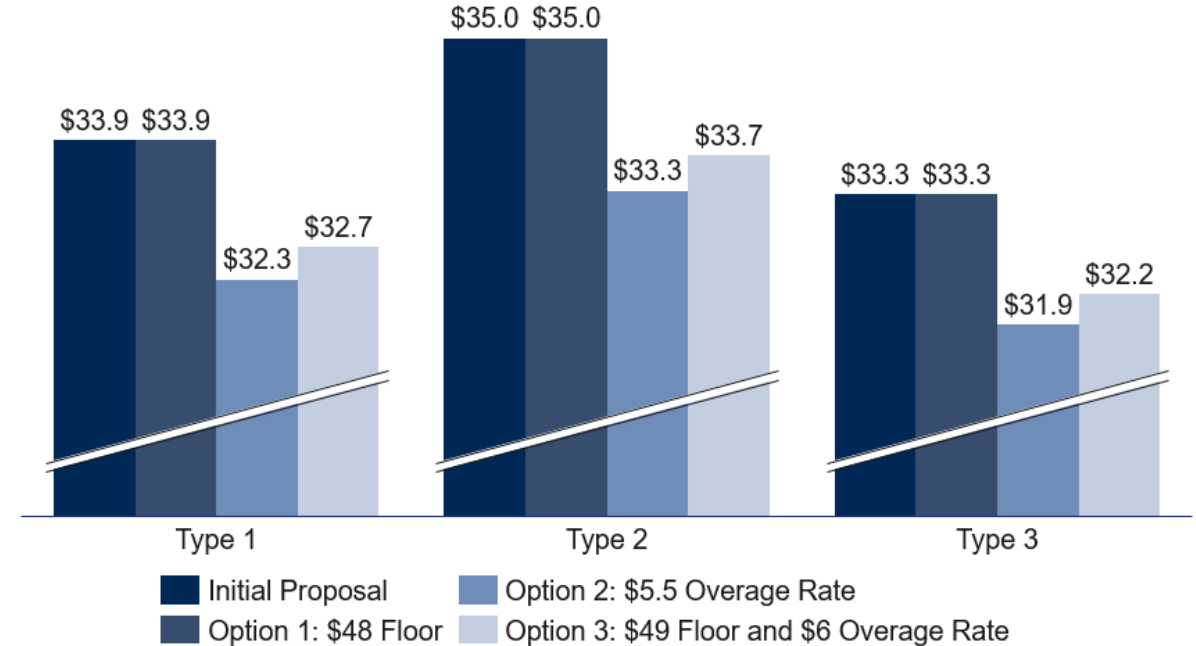


Modified proposal reduces wholesale costs relative to Initial proposal and narrows the range of cost outcomes

Average 50 Mbps wholesale prices for Floor and Ceiling variants



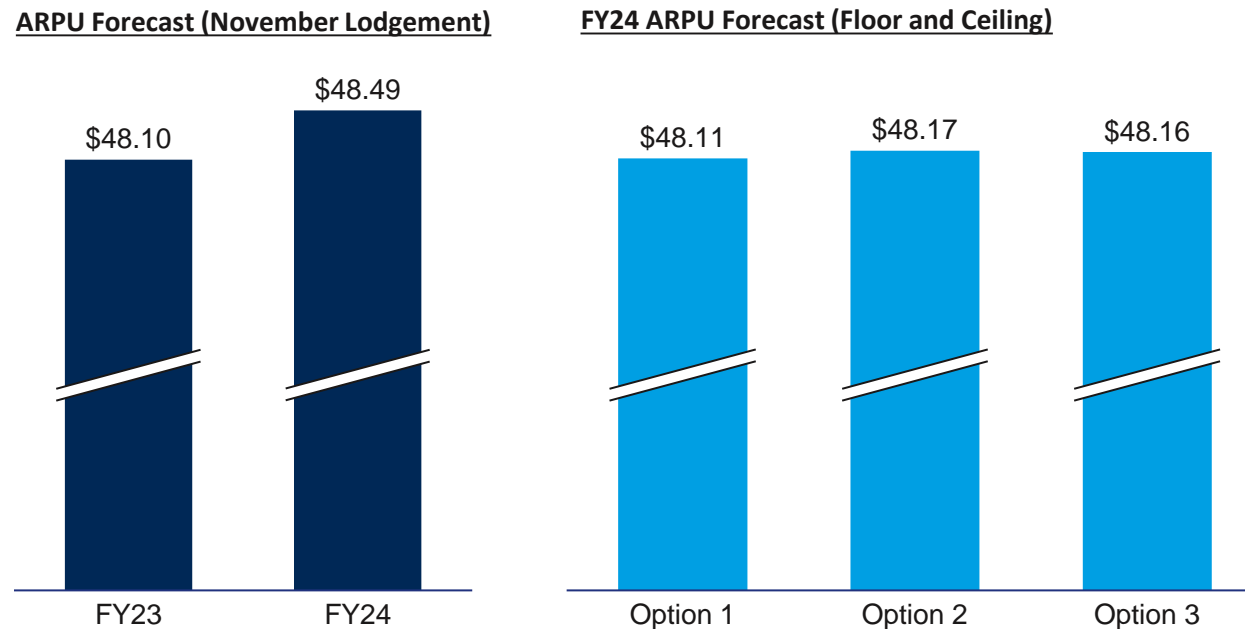
Average 12 Mbps and 25 Mbps wholesale prices for Floor and Ceiling variants



nbn impact analysis



ARPU is flat between FY23 and FY24, with revised floor & ceiling options lower than November forecast



- The proposed new options have the effect of reducing **nbn**'s expected ARPU and revenue versus our November lodgement
- **nbn** is putting forward these options for consultation as a means of demonstrating its commitment to reaching a resolution on this key remaining issue in the SAU Variation process so that a new variation can be lodged with the ACCC expeditiously

Transitional credits



- RSPs are seeking interim relief due to the delays in getting the SAU accepted
- **nbn** has proposed \$12 million across all RSPs of transitional relief to:
 - Help offset some of the costs associated with usage growth
 - Assist with costs of implementation
- Proposed to be allocated based on a \$10k fixed component per RSP recognising fixed cost associated with price transition, with the remaining amount distributed based on proportion of number of active **nbn** services at the point of SAU acceptance
- To be credited two months post-SAU acceptance

Assessment against regulatory objectives



Meets objectives consistent with promotion of the LTIE

- ✓ Providing increased wholesale cost certainty for RSPs
- ✓ Promoting competition in downstream markets
- ✓ Improving economically efficient outcomes
- ✓ Supporting consumer choice, particularly for lower-usage customers
- ✓ Promoting efficient investment in **nbn**'s network
- ✓ Maintaining **nbn** revenue neutrality



Aligned with promoting outcomes identified by the ACCC in Dec 2021 that should guide development of **nbn**'s regulatory framework

- ✓ Access seekers have greater cost certainty
- ✓ Protect **nbn** end-users from price shocks
- ✓ **nbn** has opportunity to earn minimum revenues to meet its legitimate financing objectives
- ✓ Incentivises **nbn** to operate efficiently and promotes use of the **nbn**



Indicative timing of SAU Variation and WBA5

Acknowledging the time challenges, **nbn** anticipates implementing the SAU pricing on 1 December 2023. However, this requires a Final Decision on the revised SAU Variation by no later than 13 October 2023.

Key Milestones

Activity	Jul	Aug	Sep	Oct	Nov	Dec
SAU variation						
nbn lodges revised SAU variation		★				
ACCC process from consultation to final decision		→			◆	
WBA5 process						
Final draft circulated to RSPs for governance preparation		→				
Contract issued to RSPs for governance and execution				★	→	

Alternatives to 1 December

SAU Variation acceptance date	Price Transition Date / WBA5 Implementation	Notes
14 October – 1 December 2023	By 1 February 2024 <i>(January 1 may be considered*)</i>	RSPs and nbn have limited resourcing from mid-Dec to mid-Jan due to Christmas period.
2 December – 22 December 2023	By 1 March 2024	*RSPs should advise their preference of 1 Jan or 1 Feb in their response to the Floor & Ceiling consultation.

Assumptions

- **nbn** lodges revised SAU Variation by mid-August based on selecting one of the three Modified Floor & Ceiling options
- ACCC timeframe from commencing consultation on revised SAU Variation to final decision is 8 weeks, and 6 weeks is the minimum time required for WBA5 issuance, RSP governance and execution.
- For operational purposes, the Price Transition Date must be the start of a month.
- To implement WBA5 six weeks after SAU Variation acceptance **nbn** will work with RSPs:
 - Immediately following SAU resubmission to release conditional executables of WBA5 for final review and provide support to progress governance in advance of any SAU acceptance.
 - Continue to conduct operational training and technical support.

Concluding remarks

Proceeding with a Modified Floor & Ceiling approach provides the pathway to conclude the SAU process

- As with the SAU as a whole, developing fair and sustainable wholesale pricing involves balancing the needs of consumers, RSPs and nbn's legitimate commercial interests in being a sustainable, financeable business, within the context of the regulatory framework that the ACCC administers
- This is a complex process and given the long-term implications for the SAU's price settings, it is important for all stakeholders that we get this right and deliver the best outcomes for end-users
- **nbn** remains committed to doing everything we can to enable implementation of new pricing by 1 December 2023