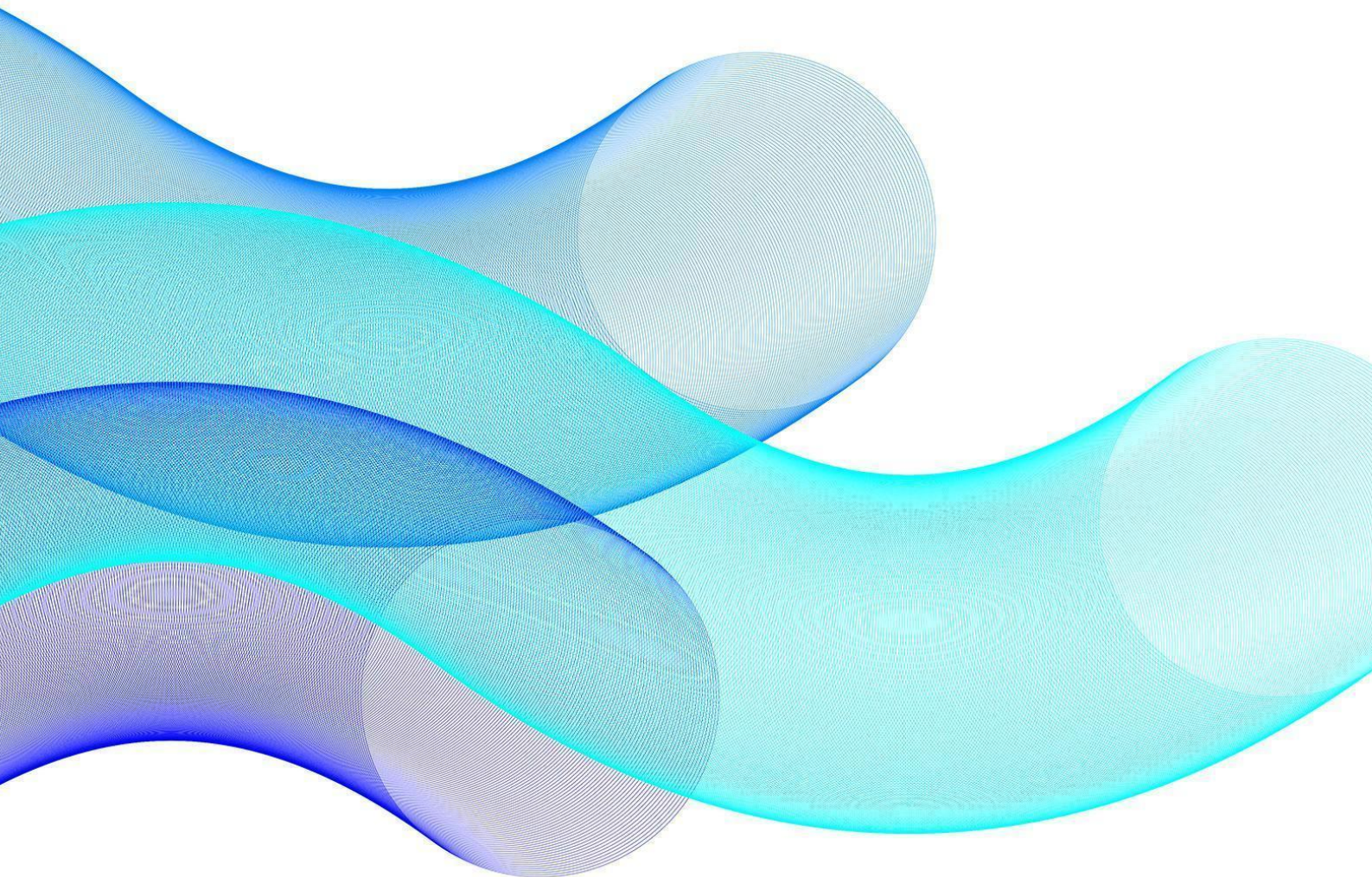

Vocus' submission in response to NBN's Floor and Ceiling – modified pricing options

July 2023



Response to NBN's modified Floor & Ceiling proposals

Vocus welcomes the opportunity to provide a response to the Australian Competition and Consumer Commission (ACCC) concerning the modified "floor and pricing" options NBN Co has sought feedback on its submission published on 6 July 2023.

NBN Co has proposed three options for consideration:

- **Option 1** – Reducing the bundle price for the 50 Mbps service (the 'floor') from \$50 to \$48 and increasing the CVC inclusion from 2.5 Mbps to 2.6 Mbps from the date by which nbn implements the new pricing in FY24 (the 'Price Transition Date').
- **Option 2** – Retaining the same bundle price for the 50 Mbps service (\$50) and reducing the CVC overage rate from \$8/Mbps to \$5.50/Mbps and increasing the CVC inclusion for 50 Mbps services from 2.5 Mbps to 3.5 Mbps from the Price Transition Date in FY24 (with the overage rate reducing to \$4.50 and \$3.50 in future years).
- **Option 3** – Reducing the bundle price for the 50 Mbps service (and hence the 'floor') from \$50 to \$49, increasing the CVC inclusion for 50 Mbps services from 2.5 Mbps to 2.6 Mbps and reducing the overage rate from \$8/Mbps to \$6/Mbps (reducing to \$5 and \$4 in future years), each from the Price Transition Date in FY24.

"Floor and ceiling" proposals

Overarching observations

Material price increase from status quo

The modified "floor and ceiling" proposals represent a material wholesale cost increase from today's prices for the 50 Mbps offer.

Vocus submits that the likely impact of NBN Co's pricing proposal will include:

- higher prices for end-users already facing cost of living pressures
- customers downgrading their plans
- customers seeking alternative networks.

Cost uncertainty remains

NBN Co has submitted that "by ensuring that no Bundled TC-4 Offer would cost an RSP more than the 100/20 Mbps flat rate offer, each of the Modified Floor and Ceiling Proposals provide a high degree of cost certainty to all RSPs".

The modified floor and ceiling proposals creates "ballpark costs" with potential variance for the 50 Mbps offer at the individual customer level between the "floor" (\$48-\$50 depending on the option) and "ceiling" (\$55) in the first year. This is not a "high degree" of cost certainty. Nor is it an increase in cost certainty for Vocus as we had intended to manage costs through optimisation of customer plans under the proposed SAU Variation submitted in November. This cost uncertainty is material for Vocus given the majority of our Consumer base is on the 50 Mbps speed tier product.

In addition, RSPs will be faced with the commercial uncertainty flowing from NBN Co's ability to increase its prices on an annual basis. To promote certainty, NBN Co should not be allowed to increase product prices each year.

NBN Co should also immediately provide RSPs with a revised three-year pricing roadmap to reflect the modified pricing options.

Modified “floor and ceiling” options

Option 2 is preferred option

Vocus has modelled the commercial impact of the modified options presented by NBN Co. On the basis of this modelling, Vocus' preferred option is option 2, due to the reduced overage rate and increased CVC inclusion. This option reduces the cost exposure to increased customer usage, as the increased customer inclusion would mean a greater proportion of our 50 Mbps services would not incur any overage costs.

The least preferred option is option 1. The CVC inclusion is too low, and the CVC overage rate has not been reduced. Reducing the CVC overage rate is a preferred option as it reduces the effective price of 25 Mbps services, where those services are in overage. This is a key consideration given the minimal CVC included (0.2 Mbps) with the 25 Mbps service.

To more effectively promote take up and retention of NBN services, we submit that NBN Co's revised SAU variation should also increase the CVC inclusion for 25 Mbps speed tier to 1.75 Mbps to account for current usage levels.

Operational impact

From Vocus' perspective, there is no difference in operational impact between the three “floor and ceiling” options.

The “floor and ceiling” construct will materially reduce the benefits of network scale as it will remove the ability for RSPs to manage their network and costs by nationally pooling CVC. The charge for an individual AVC, and the CVC utilised by that AVC, would be calculated independently on a per service basis.

Moving to a “floor and ceiling” pricing construct will have implications for how Vocus manages our network and how CVC costs are managed. It represents a fundamental change to the product construct and how we operate our network today. Implementing this new product construct will take time to operationalise across our Consumer and Wholesale business. The time needed to operationalise these changes needs to be borne in mind by NBN Co when it determines its price transition date (WBA5 implementation date).

A 1 January 2024 price transition date is not feasible given the embargos in place over Christmas period.

Transitional credit

NBN Co has not increased CVC inclusions since May 2022, in contrast to previous practice of regularly increasing inclusions. RSPs are now facing materially increased overage costs to maintain customer experience.

Vocus urges NBN Co to immediately increase the CVC inclusions in their plans until WBA5 comes into effect given the financial impact that RSPs are currently facing and the consequences these pricing pressures have on consumers.

In addition, Vocus submits that the total pool of \$12 million in transitional credit proposed to be offered by NBN Co is inadequate. The pool should be materially increased to recognise that RSPs are continuing to bear the cost of growth in demand and could continue to do so well into 2024. These costs should be more equitably shared.

END