

ACCC Inquiry into NBN access pricing – discussion paper

Introduction

On 14 October 2019, the ACCC commenced a public inquiry into the prices that NBN Co charges access seekers to use the NBN for supplying residential grade broadband services.

The ACCC is concerned that NBN Co's wholesale pricing has resulted in inefficient and unfair outcomes for consumers who have no need for the higher speeds that the NBN makes possible.

The ACCC is also concerned that NBN Co's approach to pricing has been driving inefficient and less competitive outcomes in the retail market.

Vocus Group Limited (Vocus) is Australia's specialist fibre and network solutions provider connecting all mainland capitals with Asia. Regionally, Vocus also operates an extensive and modern network in New Zealand, connecting the country's capitals and most regional centres. Vocus owns a portfolio of well-recognised brands catering to enterprise, government, wholesale, small business and residential customers across Australia and New Zealand.

Vocus welcomes the opportunity to provide a response to this inquiry.

ACCC consultation questions

Question	Vocus response
<p>ACCC approach to examining NBN access pricing</p> <p>2. How do you consider the 'no worse off' condition for migration of legacy customers onto the NBN should operate?</p>	<p>Vocus agrees with the ACCC's proposed principle that end-users should be no worse off as a consequence of migrating to the NBN.</p> <p>NBN Co should make a wholesale product available at the same cost as comparable ADSL products, to ensure legacy customers are no worse off when migrating to NBN.</p> <p>NBN Co's proposed modified Entry Level Bundle does not allow us to provide ADSL-equivalent entry-level plans. There is not sufficient CVC included. NBN Co's entry-level product should include enough CVC to address average user requirements as they exist today and projected requirements up to the end of 2022.</p>
<p>3. Do you consider that price regulation of a basic speed access product would serve as an effective price anchor on higher speed NBN services? If so, for what range of higher speed TC-4 access products would the price terms for a TC-4 12/1 speed access product provide an effective price anchor?</p>	<p>NBN Co's current pricing and bundle product promo construct makes both 12Mbps and 25Mbps products very unattractive for RSPs to offer. This has led to unfair outcomes for price sensitive consumers.</p> <p>A regulated basic speed product should provide a price anchor for 12Mbps, 25Mbps and 50Mbps products and assist RSPs in migrating legacy customers from ADSL to NBN and in providing affordable broadband.</p>
<p>4. Do you have any comments on the pricing principles proposed by the ACCC for assessing NBN Co's access prices?</p>	<p>Vocus agrees that RSPs should have a reasonable degree of certainty about NBN wholesale pricing and that pricing arrangements should not be unduly complex. These proposed principles align with Vocus' call for NBN Co to</p>

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	<p>fundamentally reform its pricing to be affordable, predictable and simple.</p> <p>NBN Co's pricing arrangements should allow RSPs to supply products at prices and quality that are attractive to end-users. The ACCC's approach to assessing NBN Co's pricing should also ensure there is a fair pathway from the basic speeds to at least the 50Mbps speed tier.</p> <p>The ACCC's assessment of NBN Co's access prices needs to be underpinned by the reality that the need for affordable broadband does not equate to low data usage requirements. Vocus wants to sell products that meet our customers needs, so they can enjoy the many benefits that connectivity brings.</p>
<p>5. Do you consider that any other changes to NBN Co's current approach to pricing NBN access services are required to provide pricing certainty for access seekers and to safeguard the interests of end-users?</p>	<p>Vocus reiterates our call for NBN Co to fundamentally reform its wholesale pricing model to be affordable, predictable and simple. These objectives can be met by:</p> <ul style="list-style-type: none"> - the elimination of the CVC construct; - the introduction of flat rate speed tiers, and - the elimination of discounts, non-recurring charges and rebates. <p>In the absence of such fundamental reforms, NBN Co should quickly move to reduce CVC prices across the speed tiers and provide for regular and appropriate indexation of CVC inclusions to account for real-world consumer demand. Data usage has continued to outpace CVC inclusions entrenching the challenge of providing affordable broadband to price-sensitive consumers.</p> <p>The complexity in how NBN Co allows RSPs to manage CVC does not promote competition. For example, NBN Co's bundled pricing allocates CVC at a CSA-level. Challenger RSPs, like Vocus, have a smaller pool of users to balance CVC capacity across, limiting their ability to efficiently manage capacity. There are also significant variances in average peak time throughput per SIO across the CSAs. NBN Co could better support RSPs in CVC provisioning if calculation of bandwidth was network-wide.</p>
<p>NBN access pricing</p> <p>6. Do the pricing features covered in this section represent the key pricing elements bearing on the supply of entry level NBN services to end-users by RSPs?</p>	<p>The pricing features covered in section 5 of the ACCC's discussion paper represent the key pricing elements bearing on the supply of entry level NBN services to end-users by RSPs.</p> <p>Vocus submits that a significant factor bearing on the supply of entry level NBN services is NBN Co's discounted pricing structure. This pricing structure is not in the long-term interests of end users. It has led to unfair outcomes for price-sensitive consumers and has benefitted larger RSPs who focus on the premium end of the market. In practice, the discounts lead to a temporary 'sugar hit' for RSPs and consumers. Customer experience temporarily improves but the "sugar hit" or benefit disappears within 6 months as data usage grows and RSPs are then forced to grapple with margin loss and the need to maintain end user experience.</p>

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<p>Product and pricing developments in retail fixed-line broadband markets</p> <p>8. Are there any additional retail pricing and product changes relevant to this inquiry that resulted from NBN Co's product and pricing changes that took effect in 2018?</p>	<p>There are no additional relevant retail pricing and product changes that resulted from NBN Co's product and pricing changes that took effect in 2018.</p> <p>These product and pricing changes did have a significant impact on Dodo, one of Vocus' retail brands. In April 2019, these changes resulted in the decision to stop selling unlimited NBN12 and NBN25 products. This decision was not taken lightly given Dodo's long-standing focus on meeting the needs of price-sensitive consumers. However:</p> <ul style="list-style-type: none"> - CVC inclusions on NBN's ELB product were insufficient and technically difficult to manage, and - there was too little wholesale price variation between the NBN25 and NBN50 bundled product to be able to offer an unlimited NBN25 product.
<p>9. Are there any further retail pricing and product changes that are being contemplated due to NBN Co's 2018 pricing changes?</p>	<p>No further retail pricing and product changes are being contemplated due to NBN Co's 2018 pricing changes.</p>
<p>10. What retail pricing and product changes have you made or are contemplating in response to NBN Co's pricing changes outlined in its second consultation paper?</p>	<p>Vocus continues to work through the implications of the pricing changes outlined in NBN Co's second consultation paper.</p> <p>The M-ELB (NBN12) may be able to function as a safety-net product for the small segment of consumers who have low download requirements.</p> <p>However, it is unlikely that Vocus will offer a mainstream NBN12 product based on the M-ELB that will provide an equivalent price and experience to ADSL products, given:</p> <ul style="list-style-type: none"> - the low amount of included data, and - the arbitrary 'breach fee' which operates as a penalty for using more of the product <p>There is a place for a NBN25 product to provide affordable broadband for price-sensitive customers. Vocus would contemplate pricing and product changes at this speed tier if NBN Co includes at least 2Mbps of CVC in its NBN25 bundled pricing at \$37 from December 2019. However, Vocus cannot sufficiently differentiate NBN25 and NBN50 plans when the variation is \$2 in wholesale cost (\$43 vs \$45 for 2mbps included CVC), and our customers would expect at least a \$5 to \$10 difference in retail pricing between the speed tiers.</p> <p>Vocus is unlikely to change from our current position of NBN50 being our 'hero' unlimited data product. It provides a better customer experience at a very similar wholesale price to NBN25 plans.</p> <p>We do see the value of the new 100/20 speed tier at a more reasonable access price. The inclusion of greater bandwidth is welcome and is expected to be of interest to our Residential Wholesale business, as well as consumers and</p>

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	<p>small businesses served by our Commander and iPrimus brands.</p>
<p>Considerations for potential regulated NBN access pricing</p> <p>11. Which TC-4 ethernet broadband access service speed tier(s) are most relevant to the objective of providing a smooth migration for all or most consumers?</p>	<p>Vocus submits that NBN25 is the appropriate speed tier to provide a smooth migration from ADSL for most customers.</p> <p>There is currently no ADSL2 equivalent speed and cost product provided by NBN Co. Vocus wants to be able to transition our price-sensitive customers from ADSL to NBN access technologies without them incurring bill shock and having a poor customer experience. This customer segment should be able to at the very least continue their current internet usage as they move across to the NBN.</p> <p>NBN Co's 12Mbps speed tier product is more suited for voice-only products and the subset of consumers who have low data requirements.</p>
<p>CVC requirements on commencement</p> <p>12. What level of CVC dimensioning for the basic broadband access product do you consider is needed to support a smooth transition of ADSL/ADSL2+ customers to the NBN for a retail price point of \$60 with unlimited data?</p>	<p>Customers on low speed tiers are not necessarily low-bandwidth users. Vocus' experience is that there is only a marginal difference in the CVC requirements between our customers on the NBN 12, 25 and 50 Mbps speed tiers.</p> <p>The amount of CVC included in NBN Co's new ELB bundle is not sufficient for us to offer an unlimited download 12Mbps product given existing and projected bandwidth requirements. 1Mbps of included CVC is insufficient to deliver an unlimited download product. Based on today's usage, at least 1.2Mbps of included CVC on a NBN12 bundled product is needed to deliver a sustainable unlimited product at a \$26.50 wholesale price point.</p> <p>Vocus has also suggested to NBN Co that the bundled NBN25 product maintain its 2Mbps CVC inclusion and be repriced to \$37.</p> <p>In identifying a target monthly access cost, the ACCC must also recognise that for a challenger brand to be able to innovate and provide good customer experience, it needs to allow for more than a 10% retail margin.</p>
<p>Adjusting CVC requirements to account for growth in traffic</p> <p>15. What rate of indexing of the CVC dimensioning is required on a basic broadband access service for it to continue to provide for a smooth migration over the course of the rollout?</p>	<p>In the absence of fundamental reforms to NBN pricing which eliminates CVC, Vocus submits that increases to included bandwidth should occur every six months, by at least 500kbps or a pre-determined amount based on an agreed CAGR. The increase in CVC inclusion should not increase wholesale prices given that bandwidth in core networks becomes cheaper over time.</p> <p>Further, the value of CVC should be the same across each AVC speed tier. This change would make NBN Co's products simpler to sell and operate.</p> <p>NBN Co's proposed indexation of CVC inclusion is not sufficient to support RSPs in delivering a smooth migration over the course of the rollout given the growth in data usage.</p>

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	<p>NBN Co's proposed indexation appears to ignore a 35% CAGR in bandwidth demand. Based on the proposed inclusions, the NBN25 service is going to be even more difficult to sell at an affordable price. Our internal modelling suggests that NBN25 bandwidth requirements will see nearly 2Mbps of overage being purchased by May 2021.</p> <p>The ACCC and NBN Co should also be mindful of future use cases for increased capacity. Applications which will be the key drivers of usage are likely not in the market yet. The genres likely to continue driving usage include SVOD, AR, VR, gaming and cloud applications that are resource-intensive such as photo storage and editing.</p>
<p>16. How should the required growth in CVC dimensioning be accommodated in developing price related terms for the basic speed access product and does this put the \$60 retail price point with unlimited data at risk?</p>	<p>Vocus reiterates its position that the CVC construct should be eliminated. NBN Co's approach to CVC creates significant commercial risk and uncertainty for RSPs. With the current CVC construct in place, a \$60 retail price point with unlimited data will always be very difficult to offer and maintain.</p> <p>RSPs costs that are included within a retail price point include GST, the cost of modems and other customer equipment, product development, sales, marketing and ongoing customer support. Adding to these costs and risk, NBN Co has created a situation via its CVC construct where it becomes progressively more expensive to service customers. This approach has resulted in a retail broadband market where there is too little retail price differentiation and RSPs need to focus on cutting costs rather than on innovation and good customer experience.</p>
<p>New product and pricing offer, or use of discount notices?</p> <p>17. What do you see as the pros and cons of establishing the price related terms and conditions of access to a basic broadband access product by way of a new product bundle or being implemented by way of a partial waiver/discount?</p>	<p>The significant "con" of NBN Co implementing changes by way of a partial waiver/discount is the uncertainty. There is always an end date to the discounts and this date is often changed compounding the challenge for RSPs in planning and managing costs. For example, the proposed end date of the DBD-R discount was May 2019. To prepare for this change, Vocus undertook significant network and IT development activity only for this date to be extended with little notice to June 2020.</p> <p>NBN Co's approach to pricing creates significant cost uncertainty through shifting goal posts and drives unnecessary operational overhead to implement changes to stay relevant in a competitive market. The complex web of discounts, non-recurring charges and rebates also inhibits efficient competition by favouring retailers with larger market shares, to the detriment of challenger brands. Customers often choose 12-24 month contract terms. RSPs require certainty to avoid having to manage excessive grandfathered plans and variations in their systems.</p>
<p>Implications for transformation costs and scale economies</p> <p>18. Will NBN Co's proposed pricing in its second consultation paper allow</p>	<p>NBN Co's approach to pricing inappropriately dictates network management principles.</p> <p>The pricing proposed in NBN Co's second pricing paper, is driving Vocus to rationalise onto the bundled construct. However, this approach comes with the downside of being</p>

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access seekers to rationalise their CVCs?	complex, by not allowing us to manage CVC cost at a national level as is allowed for in the basic pricing construct.
19. What further approaches could be considered to facilitate opportunities to reduce transformation costs and/or allow access seekers to exploit scale economies in respect of the basic broadband access product?	<p>Vocus' NBN retail pricing is set at a national level to treat our customers fairly. In contrast, NBN Co's pricing structure drives unique costs at a regional level, creating pockets of high-cost and low-cost customer populations, which cannot be offset from each other from a network management perspective.</p> <p>A key principle of network management for Vocus is to provide the right customer experience when its needed. However, managing CVC at a CSA level impedes our ability to manage customer experience. Calculating CVC overage as a national aggregate would better enable Vocus to provide network capacity where it is needed most without being prohibited by cost concerns based on geography.</p> <p>If NBN Co removed CSA-level calculations of bandwidth and overage this would allow access seekers to better exploit scale economies. Calculating CVC overage at a national aggregate level would also provide a more consistent customer experience across our base.</p>
<p>Support for a limited and unlimited quota basic speed retail product</p> <p>20. What is your preferred approach to preserving sufficient flexibility to offer limited quota plans over a basic broadband access product?</p>	<p>Vocus' preferred approach to preserving sufficient flexibility is for NBN Co to provide a simple, fair and certain pricing construct that enables RSPs to provide products and pricing that meets their customers' needs. NBN Co's current approach means Vocus' decisions on pricing and product are too often driven by the cost of network capacity rather than our customer needs.</p> <p>Under NBN Co's bundled construct, there is not an opportunity to exploit scale economies. Overage does not become cheaper as more is purchased, it simply remains a flat \$8 per Mbps.</p>
21. Should this be left to individual dimensioning choices of access seekers acquiring a scalable basic access product or should a separate limited quota access product be developed?	<p>Any limited quota basic speed retail product should be left to customer choice and demand. RSPs know their customers best.</p> <p>Underlying wholesale costs should not dictate how and when end users access the internet. NBN Co should provide RSPs with the necessary bandwidth at fair prices to allow RSPs to deliver affordable broadband.</p>
22. What do you consider to be the level of CVC dimensioning that would support a limited quota, basic speed retail plan?	<p>The following price points and level of CVC inclusions are necessary to support affordable broadband products:</p> <ul style="list-style-type: none"> - NBN12 - \$26.50 – 1.2mbps CVC - NBN25 - \$37.00 – 2mbps CVC <p>As noted above, the CVC inclusion should increase every 6 months, by at least 500kbps to account for the growth in data usage.</p>

Question	Vocus response
<p>Allowing access seekers to achieve a comparable access cost when supplying basic speed retail plans on the NBN</p> <p>23. Are there any features of NBN Co's new ELB offer that favours some access seekers or business models over others when it is used to supply a basic speed broadband plan?</p>	<p>There are no features in NBN Co's new ELB offer that favour some access seekers or business models over others. The new ELB offer does not include sufficient bandwidth to deliver an unlimited product and includes an arbitrary 'breach fee' of \$5.70 which penalises consumers looking for affordable broadband. Vocus again highlights that consumers requiring affordable broadband do not necessarily have low usage.</p>
<p>Application to NBN Co's wireless access networks</p> <p>24. What approach do you consider should be adopted in respect of basic broadband access products that are supplied over NBN Co's fixed wireless or satellite access technologies?</p>	<p>RSPs should be able to provide affordable broadband products over NBN Co's fixed wireless or satellite technologies. However, NBN Co's current fixed wireless pricing is more expensive than in the new proposed pricing options.</p> <p>There has also been insufficient investment to bridge the digital divide and ensure fixed wireless customers are able to access comparable speed experiences as other NBN access technologies. NBN Co's own fixed wireless congestion report marks customers receiving 'greater than 6Mbps' as sufficient. Customers receiving less than this are already falling below the ADSL/ADSL 2+ speed experience.</p>
<p>25. Are RSPs likely to differentiate their prices based on access technology if the Entry Level Bundle is not available over Fixed Wireless networks?</p>	<p>Vocus will not differentiate our prices based on access technology if the ELB is not available over fixed wireless. Vocus prices its plans at a national level and provides the same price across the access technologies it uses.</p>
<p>Implications for competing networks</p> <p>26. Do you consider that NBN Co implementing its revised ELB offer to support a basic speed broadband product would likely have the effect of inhibiting efficient competition?</p>	<p>As stated previously, NBN Co's revised ELB offer is not constructed in a manner that allows an RSP to provide both an affordable, unlimited data product.</p> <p>NBN Co's overall approach to pricing inhibits efficient competition, customer choice and increases incentives for access seekers to explore product and pricing options with competing networks. Vocus' view is that substitution of mobile or fixed wireless products for NBN broadband services will continue to grow, as RSPs seek better margins than available in reselling NBN.</p>
<p>Service transfer and transfer reversal charges</p> <p>30. What level of charges do you consider reasonable for these service transfer and reversal charges? Should these be implemented by way of a price change or via a discount?</p>	<p>NBN Co's proposed reduction in the service transfer fee should be permanent, rather than a temporary discount from \$22.50 to \$5.00 (effective from 1 December 2019 to 30 November 2020). NBN Co should not benefit from a consumer's choice to switch providers. The need for a permanent reduction is critical as the NBN market moves from the build phase to the operate phase and such barriers to customer churn may well stifle competition.</p>

Please direct any questions regarding this submission to:

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