

20 July 2023

ACCC

By email: nbn@accc.gov.au

Re: NBN Co SAU variation – NBN Co's revised pricing proposal submission (4 July 2023)

X Integration welcomes the opportunity to respond to the 4 July 2023 NBN Co revised pricing proposal submission and address other concerns raised.

As per X Integration's previous 20 June 2023 submission, we remain supportive of NBN Co's Floor and Ceiling Proposal and consider it superior to NBN Co's November Variation approach to the 50Mbps speed tier.

We have a preference for NBN's option 1, however we believe all 3 options would be superior to the November variation option.

Continued support for the Floor and Ceiling Proposal

As previously stated, X Integration expressed support for the Floor and Ceiling Proposal in our June 20, 2023, submission to the ACCC. The proposal aims to address the cost uncertainty associated with the 50Mbps speed tier pricing in the November 2022 SAU variation while maintaining revenue outcomes. We firmly believe that NBN Co's Floor and Ceiling proposal adequately addresses the ACCC's concerns.

However, objections have been raised, particularly regarding the removal of optimization capabilities. This approach allows larger RSPs with diverse customer bases and advanced automated systems to proactively modify speed tiers and avoid exceeding the \$55 price point. While some perceive this optimization as innovative, it creates an uneven playing field for smaller RSPs like X Integration, lacking the customer bases and technical resources to develop such complex systems without significant opportunity costs.

Challenger brands already face the difficulty of competing with established systems, infrastructure, and brand recognition of larger competitors. While we tend to be nimbler and more flexible, which partially compensates for this disadvantage, we simply lack the scale of resources to develop intricate optimization systems. As a result, optimization would further the competitive gap and hinder smaller RSPs.

Additionally, the current price structure of the 50Mbps tier is temporary until FY26 when NBN Co plans to introduce a flat AVC-only price for all speed tiers. Smaller RSPs cannot afford to develop optimization systems for such a modest window of time. Therefore, if smaller RSPs cannot compete in an optimized playing field, it may lead to them exiting or reducing activities in the 50Mbps and below speed tiers. This will diminish market competition which is against the long-term interests of end users.

Analysis by NBN Co indicates that cross-subsidization by 50Mbps services for lower speed tiers is currently limited, with only one RSP utilizing inclusions from 50Mbps services to reduce overage on 25Mbps services. This suggests that the proposed optimization under the November 2022 variation would introduce a new construct rather than maintaining an existing scenario. Moreover, our evaluation of the current pricing structure demonstrates that higher speed tiers offset costs for 50Mbps and below speed tiers due to their higher level

of inclusions. While the introduction of flat-price AVC-only speed tiers may eliminate this cross-subsidization, it is mostly offset by the shift to average utilization for CVC instead of maximum utilization.

Thus, implementing the optimization suggested under the November 2022 variation would further enhance the competitive advantage of larger RSPs with diverse customer bases. NBN Co's modeling supports this conclusion, indicating that smaller RSPs like X Integration would face higher wholesale prices across the 50Mbps speed tiers and below compared to established market players. This will leave us at a significant competitive disadvantage.

In addition to these concerns, we recognize the operational complexity associated with the proposed optimization. Developing, implementing, and managing sophisticated optimization mechanisms require significant technical resources, time, and financial investment. For smaller RSPs like X Integration, with limited resources and capabilities, navigating and managing such complexity would divert our attention and resources from other critical aspects of our operations, hindering our ability to efficiently serve customers, compete in the market, and allocate resources effectively. This is against the long-term interests of end users, as smaller providers often challenge the market status quo by introducing new products and features or driving consumer prices down through more efficient operations.

More broadly, rather than RSPs devoting resources to enhancing systems and operations, to the benefit of end users, they will instead be working to optimize their wholesale costs. On an individual service level, the savings are likely to be modest, and therefore not be of particular benefit to individual end users, but on a macro level the savings could be considerable.

NBN Co's suggestion that optimization will have a significant impact on its revenue forecasts seem inherently plausible. The 3 largest Access Seekers with 3,634,649 50Mbps services between them as of 31 March 2023, represent 80% of the 50Mbps market.¹ Assuming these Access Seekers are the most likely to be able to highly optimize due to their scale, the impact of the high optimization scenario that NBN modeled, at \$3.9 per 50Mbps service, on NBN's revenue would be material. NBN Co's revenue forecasts could conceivably be impacted by several hundred million dollars if the modelling is accurate for the 50Mbps tier, and the lower speed tiers which it has also modelled.

Given these considerations, we strongly believe that the floor/ceiling approach offers a more straightforward and equitable solution, avoiding the complexities and resource-intensive nature of optimization. By providing a level playing field, this approach enables all RSPs, regardless of size or technical capabilities, to compete fairly, fostering a sustainable market environment.

Modified Floor and Ceiling Proposals

Each of the three options presented by NBN represent improvements for all RSPs over the original June 2023 Floor and Ceiling Proposal.

As a supporter of that original Proposal, X Integration would therefore have no objections to any of the three options presented.

Option 1, which reduces the bundle price of 50Mbps from \$50 to \$48 seems the most straightforward option, and if we had to choose between any of the three options this would be our preference. It will deliver a universal benefit to all RSPs, irrespective of size and userbase.

¹ <https://www.accc.gov.au/by-industry/telecommunications-and-internet/national-broadband-network-nbn-access-regulation/nbn-wholesale-market-indicators-report/march-quarter-2023-report>

Conversely the other options which adjust CVC overage rates may benefit some RSPs more than others depending on the usage profiles. Eg. An RSP that has a userbase that uses more CVC than other RSPs will gain more benefit than others from either Option 2 or 3. Whereas with Option 1 each RSP gains the same material benefit irrespective of the particularities of its userbase.

NBN Co's modelling of the first year shows that the ARPU implications for all three options are broadly similar, and without a pricing roadmap for FY25/FY26 for the options it is difficult to evaluate further the longer-term cost implications of each option.

But given they do represent a material improvement over the previous Floor and Ceiling proposal, we strongly endorse the selection of one of these options by NBN Co in its SAU variation submission. Each is superior to both the original November SAU variation offer, or the initial Floor and Ceiling proposal.

Implementation date

NBN Co has advised that a 1 December 2023 implementation date is possible if a Final Decision is reached no later than 13 October 2023. However, if this cannot be achieved, we would suggest a date of 1 February 2024 should be targeted for implementation.

While RSPs and NBN Co have limited resourcing from mid-Dec to mid-Jan, there should be sufficient time prior and post this period to allow a 1 February implementation.

It is also likely that there will be price changes on consumers following the SAU implementation, and it would be damaging to both NBN Co and RSPs if price changes were announced for consumers over the Christmas period.

A 1 January 2024 implementation is not-viable, due to the significant number of staff that would be on leave across the industry over the mid-Dec to mid-Jan period.

FY25 Price changes

Given the changing implementation date, with the original expectation of implementation occurring in the middle of 2023, the timing of annual price increases must be reconsidered.

Given the change to prices, particularly on the 50Mbps speed tier, it would be very detrimental if multiple price changes were undertaken in quick succession. Even a 1 December implementation would mean consumers would then be receiving correspondence of a price increase at the latest in May / June 2024, around 6 months after their most recent price increase.

There already exists a negative consumer sentiment against NBN Co's pricing, and the reception to two price rises in such a short period is likely to generate further negative sentiment and may even become a political issue. We anticipate that this may lead to a decrease in active NBN services, particularly if competing products, such as cellular home broadband, do not have corresponding price rises. NBN Co should not dismiss lightly the possibility that this could have a material impact on its finances.

While we appreciate that NBN Co has certain commercial objectives that are delivered by the pricing roadmap that has been set out, we encourage NBN Co to reconsider the FY25 price rise. Our recommendation is that NBN delay its first price increase to FY26. To compensate for the lack of a price rise in FY25, NBN Co could increase the price rise in FY26 to offset the revenue lost in FY25. A larger price rise in FY26 would also align with broader rollout and

adoption of the Fibre Connect upgrade program that might reframe the consumer / NBN value proposition. Consumers may be more receptive to price rises if NBN Co can present a positive case about service quality and standards that would naturally come with enhanced fibre availability.

Conclusion

The SAU process has been a time consuming and at times difficult process for all parties. While some might be inclined to blame others for the time taken to complete this SAU, we consider this to be unproductive and unnecessary. There has been a genuine need for NBN Co and the ACCC to engage and consult and give the opportunity for issues to be properly considered.

We believe that all parties have a strong interest in seeing the completion of the SAU as soon as possible. Like most RSPs, we have plans that are contingent upon the SAU being implemented. A completed SAU is essential for all parties and cost uncertainty is impacting all participants, both RSPs and NBN Co.

We urge everyone involved to do everything possible to assist in the timely completion of this process without diminishing the genuine need for consultation and engagement. X Integration remains confident that the ACCC and NBN Co can deliver a completed SAU this year.

Kind Regards,

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