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23 July 2026

Usman Saadat
Executive General Manager, Economic Regulation
NBN Co
Level 16, 100 Mount Street
NORTH SYDNEY NSW 2060

Dear Mr Saadat

RE: ACCC Replacement Module Determination – potential adjustments to revenue forecasts

I write in relation to a matter arising from the ACCC draft Replacement Module Determination, published on 31 March 2026 (draft determination), which remains under consideration for the purposes of making the ACCC's final Replacement Module Determination for the second regulatory cycle (final determination) under NBN Co's Special Access Undertaking (SAU).

The ACCC is still considering this matter to be determined in its final determination and has not yet formed concluded views on the matter raised in this letter, or any other matters to be included in its final determination.

Previous correspondence relating to revenue forecasts

In my previous correspondence to you on 11 June, we noted that the ACCC was considering demand forecasting implications for revenue forecasts. Specifically, we outlined our view that if we maintained our preliminary view in the draft determination that certain aspects of NBN Co's capital expenditure exceeds prudent and efficient levels because it is based on demand forecasts that did not sufficiently incorporate evidence of customer willingness to pay in the final determination, the SAU would require the ACCC to make adjustments to certain revenue forecasts proposed by NBN Co in its Replacement Module Application (RMA).

We invited NBN Co's submissions on the methodology the ACCC should adopt for calculating the appropriate top-down adjustments to NBN Co's proposed revenue forecasts, in the event that it were necessary for the ACCC to make demand-based adjustments to certain capital expenditure. We also noted that we are continuing to consider all of NBN Co's

submissions, included those relating to NBN Co's views on the prudency and efficiency of capital expenditure, whether its demand forecasting methodology appropriately reflects willingness to pay, and the Centre for International Economics' report submitted in support of NBN Co's submission.

In your correspondence of 26 June, NBN Co submitted that it does not consider any adjustments for the Second Regulatory Cycle are required for the final determination.

Your letter outlined NBN Co's view that, in summary, revenue forecasts should reflect the ACCC's (and NBN Co's) genuine estimate of NBN Co's forecast revenue for the Second Regulatory Cycle based on the NBN Co network as actually built and expected to develop over FY27-FY29, and the products and services NBN Co is offering and is expected to offer over that period. NBN Co's letter submitted that this is regardless, for example, of the fact that some capital expenditure forecast for the Second Regulatory Cycle will not be included in the forecast Regulatory Asset Base (RAB) due to the Australian Government's decision to cap NBN Co's cost recovery in relation to the Local Fibre Build component of NBN Co's final FTTN upgrade program.

NBN Co's letter also stated that its response focussed on conceptual matters, and that NBN Co has not sought to address any potential quantitative adjustments that could arise depending on what the ACCC may decide in relation to these matters.

Unclear basis for how no revenue adjustment would meet SAU requirement

The ACCC notes NBN Co's submitted position in its 26 June letter that the SAU does not require adjustments to revenue forecasts.

However, it is not clear to the ACCC how NBN Co's proposed revenue forecasts, as submitted in its RMA, would be based on consistent inputs if the ACCC's final determination were to make demand-based adjustments to NBN Co's expenditure. The ACCC's preliminary view in its draft determination was that to ensure that clause 5.3(iv) of the SAU is met, a corresponding adjustment to revenue forecasts would be necessary. This would be because any adjustment to expenditure on the basis of overstated demand forecasts would, in effect, amount to an adjustment to the estimated demand profile and demand forecasts for NBN Co.

Our draft determination outlined our preliminary view that NBN Co's fixed wireless capital expenditure exceeds end user willingness to pay, and that we proposed to adopt a lower capital expenditure amount that reflects a more gradual upgrade program.[1] Our draft determination also noted our preliminary view that:[2]

1. Clause 2G.2.5(d)(ii) of the SAU requires NBN Co to have regard to the expected end user willingness to pay for its products and services, when forecasting its prudent and efficient expenditure.[3]
2. If the demand forecasts NBN Co has used in forecasting expenditure are overstated, this will mean its revenue forecasts will also be overstated, as the SAU requires the use of the same demand forecasts in determining these revenue forecasts.

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1 ACCC, *Draft replacement module determination – regulatory cycle commencing 1 July 2026*, 31 March 2026, pp.130-132.

2 ACCC, *Draft replacement module determination – regulatory cycle commencing 1 July 2026*, 31 March 2026, p. 106.

3 Clause 2G.2.5(c) of the SAU sets out objectives for forecasting the prudent and efficient expenditure an operator in NBN Co's position would incur. Clause 2G.2.5(d) sets out what NBN Co must have regard to when forecasting prudent and efficient expenditure to achieve those objectives.

Potential methodology for making demand-based adjustments to revenue forecasts

As noted above, this matter remains under consideration by the ACCC. As part of this consideration, we have been considering, with our expert consultant HoustonKemp, an appropriate methodology to make any top-down revenue forecast adjustments that would reflect an underlying demand forecast supported by customer willingness to pay for the fixed wireless capital expenditure, in the event the ACCC decides to adjust this capital expenditure on that basis.

Attachment A to this letter outlines the proposed methodology for making demand-based adjustments to NBN Co's revenue forecasts, should this be necessary. Also provided alongside this letter is a spreadsheet from HoustonKemp, illustrating the underlying calculations for the proposed methodology.

Further information and comment sought on revenue forecasts

To support us in making our final determination, we seek the following from NBN Co:

1. A breakdown of NBN Co's forecast revenue derived from its Traffic Class 4 products, for each of the following revenue forecasts proposed in its RMA for FY27 to FY29:
    a) Annual Core Services Forecast Revenue
    b) Annual WAPC Services Forecast Revenue
    c) Annual Non-WAPC Services Forecast Revenue
2. NBN Co's views on the proposed top-down revenue adjustment methodology, as described in Attachment A to this letter and illustrated in the provided spreadsheet. In particular, we invite any comments from NBN Co about any improvements to this methodology, or an alternative methodology that the ACCC may consider, should it form the view that any revenue forecast adjustments are necessary.

Next steps

We request that NBN Co provide a response on the above matter by 4:00pm AEST on Thursday 30 July 2026.

We intend to publish this letter, including Attachment A, along with NBN Co's response on the ACCC's website to provide transparency for other stakeholders. We do not intend to publish the spreadsheet from HoustonKemp, which contains confidential information provided by NBN Co.

After that date, the ACCC intends to proceed to make its final determination. The ACCC will make its decision based on the evidentiary material before it at the time, taking into account NBN Co's response and all submissions received.

Yours sincerely

Michael Drake
A/g General Manager
NBN SAU Unit

Attachment A – overview of potential revenue forecast adjustments

This attachment sets out the logic and assumptions that underpin the model that HoustonKemp has developed to calculate adjustments to NBN Co's forecast revenue, as illustrated in the following confidential spreadsheet provided to NBN Co:

- HoustonKemp – forecast revenue adjustments – fixed wireless (17 July 2026).xlsx (i.e., the model).

Model overview

The model adopts a bottom-up approach to calculate NBN Co's forecast revenue by speed tier and technology, being the product of price and forecast demand. This allows the model to isolate more clearly the revenue associated with specific speed tier-technology combinations, and to calculate the revenue adjustments arising from the potential adjustments to NBN Co's fixed wireless expenditure.

The model calculates forecast revenue adjustments using two approaches, i.e., the:

- **full adjustment approach**, which adopts the alternative prudent and efficient expenditure profile set out in HoustonKemp's expenditure assessment and adjusts NBN Co's forecast revenue for the relevant finding or findings in full across the first and second regulatory cycles; and
- **path dependence approach**, which takes NBN Co's expenditure decisions made in the first regulatory cycle as given, and adjusts forecast revenue only for expenditure decisions it plans to make in the second regulatory cycle.

The ACCC is only seeking NBN Co's comments on the **full adjustment approach**. We are not seeking NBN Co's comments on the path dependence approach, which would result in no adjustments to NBN Co's revenue forecasts.

Further, we note that while the model illustrates revenue adjustments from FY24 to FY29, the SAU does not allow for any adjustments to historical revenue. The ACCC is therefore only considering adjustments for FY27 to FY29.

Model inputs

The two core inputs used in the model are forecast demand and prices for NBN Co's Traffic Class 4 services.

Forecast demand inputs have been provided by NBN Co.[1] These forecasts set out the number of services in operation (SIO) over the period FY24 to FY29, disaggregated by speed tier and technology.

The model takes pricing inputs for the period FY24 to FY27 from NBN Co's published SAU tariff list for the relevant year.[2] For FY28 and FY29, for which there is no published tariff list, the model uses the indicative prices for these years as published in NBN Co's most recent pricing roadmap.[3]

[1] NBN Co, [redacted]

[2] For example: NBN Co, *SAU tariff list: 1 July 2024 to 30 June 2025*, 1 May 2024, pp 7-9, 35.

[3] NBN Co, *3 Year SAU Pricing Roadmap: 1 July 2026 to 30 June 2029*, 1 May 2026, pp 7-8, 34.

There is an instance where the pricing lists disaggregate a service beyond the level of granularity applied to NBN Co's demand forecasts. In particular, the pricing lists set out three prices for the SkyMuster Plus service, varying by the level of data allowance.

In that instance, the model assumes that the price applied to the aggregate number of SIOs is equal to the simple average of the relevant prices.

Model calculations

The model reallocates NBN Co's forecast superfast services on the fixed wireless network to the home fast speed tier, consistent with HoustonKemp's finding that there is no evidence of end user need for the superfast service. No change is made to the total number of forecast active services on the fixed wireless network.

Consistent with this adjustment, the model preserves NBN Co's underlying assumptions regarding service take-up on the fixed wireless network, while reflecting the absence of demonstrated end user need for the superfast tier.

For the remaining technologies (i.e., FTTP, FTTN, FTTC, FTTB, HFC and satellite), the fixed wireless model makes no change.

Model outputs

The adjustment to NBN Co's forecast revenue is calculated as the difference between the baseline replication of NBN Co's forecast revenue and the alternative revenue forecast that incorporates HoustonKemp's findings from its expenditure review.

The monetary difference is shown in cells D40 to I40 in the '*O | Comparison*' sheet of the provided Excel spreadsheet, while the percentage difference is shown in cells D42 to I42 of the same sheet.

The resulting annual adjustment ranges between [redacted] and [redacted] of total forecast Traffic Class 4 revenue between FY27 to FY29. This equates to an approximate reduction of around $[redacted] million over FY27 to FY29, as currently calculated in the model.

Potential revenue adjustments arising from the model

Given that the model's revenue changes relate only to Traffic Class 4 revenue, to enact these adjustments we would apply the percentage difference between the baseline replication of NBN Co's revenue forecast and the alternative revenue forecasts shown in the model to NBN Co's Traffic Class 4 revenue portion of its submitted revenue forecasts (i.e. use the bottom-up analysis to make a top-down adjustment to NBN Co's revenue forecasts).

That is, we would apply the percentage adjustments ranging between -0.003% and -0.006% to the Traffic Class 4 revenue portion of NBN Co's submitted Annual WAPC Services Forecast Revenue, to calculate the monetary reduction to NBN Co's submitted Annual WAPC Services Forecast Revenue for FY27 to FY29 that we would make.

We would not apply the adjustments to Annual Non-WAPC Services Forecast Revenue, and adjustments to the Annual Core Services Forecast Revenue would be derived by adding the adjusted Annual WAPC Services Forecast Revenue and the submitted Annual Non-WAPC Services Forecast Revenue together.