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Bureau of Communications Research

Via email: BCR@communications.gov.au

ACCAN thanks the Bureau of Communications Research (BCR) for the opportunity to contribute to its consultation on NBN non-commercial services funding options. ACCAN is the peak body that represents all consumers on communications issues including telecommunications, broadband and emerging new services.

Question 1: Is measuring NBN satellite and fixed wireless service costs on a commercially focused basis appropriate?

ACCAN notes that the BCR has been asked to consider funding options for the delivery of non-commercial services through a direct levy on providers of high speed broadband, which supports infrastructure competition. However, other options, while not being considered or within the terms of reference for this analysis, may prove to provide this at reduced costs and with greater benefits. The policy objective is to provide access to all to broadband services. This is a social policy object and not a commercial industry. For example, the treatment of some of the equity funding by the government to nbn™, which requires a return, instead could be used as a subsidy to fund non-commercial areas. This would reduce the need to increase the cost of access in commercial areas, which negatively impacts on the take up in these areas and the affordability of the products for end users. It would also reduce the return that nbn™ is 'banking' in the initial cost recovery account (ICRA), reducing the affordability of NBN services and which could jeopardize the sustainability of nbn™.

ACCAN is not opposed to the method suggested by the BCR, to measure the non-commercial services by aggregating over time to a net present value the operational and capital expenditures, and an allocated share of common costs. However, we have concerns over the common costs and collecting an even return throughout the period. Allocating a share of common costs is arbitrary and not necessarily reflective of the actual cost to deliver the service. This could affect the level of transparency and future contestability of the services. ACCAN's interest in how the non-commercial services are funded fundamentally comes down to how it affects prices for end users and long term sustainability. A costing method which maximises welfare should be prioritised. Access to high speed broadband will deliver benefits to end users and the economy, as evidenced by the desire to fund non-commercial areas. In order to deliver these benefits, take up of the services is important. Therefore, the timing of the recovery of costs is particularly important. Ramsey's inter-temporal model would suggest that when end users display inelastic demand for services, nbn™ should recover more than when the demand is elastic (i.e. recover more when demand is stronger). While it is important that the BCR examines the costing, it is important that it is not the only focus and that consideration is given for the demand of the services. A funding model which recovers the cost too quickly will likely have a detrimental impact on the benefits that accrue from the NBN, lowering the overall welfare and potentially threatening the sustainability of the NBN model.

Question 2: Is it appropriate to consider commerciality on a network 'cluster' basis?

ACCAN is supportive of the treatment on a network 'cluster' basis; however there may be technical issues with considering clusters. An ongoing issue with the USO has been that it is difficult to identify how many premises are loss making and therefore reliant on the policy. By considering a cluster basis it will help to identify the loss making areas and the number of premises. This is important for ensuring that the ongoing support is delivering value for money.

Not all areas in the satellite and fixed wireless areas will be loss making. This is particularly true with the nbn™ technology choice product (aka fibre on demand) and commercial products (such as Wi-Fi on airlines and the use of the network by mobile providers). These may prove to provide a commercial return to the network. Therefore, a granular analysis of the network would be preferable. While the BCR proposes to treat the satellite network on an aggregate level, consideration should be given to any commercial products that are sold on the network.

ACCAN is interested to know how the BCR will treat technology choice products, where end users can upgrade the technology by which the NBN will be delivered. Consumers in pockets of satellite areas may choose to 'area switch' to fixed wireless, or other technologies, at a cost to deliver the upgrade. This would change the economics of the area and may result in the area being considered a commercial cluster.

Question 3: Is FY2040 at an appropriate time period for assessing NBN non-commercial services?

The telecommunications industry is a rapidly developing industry. It is unclear what services and capacity end users will require in 10 years, let alone a 25 year period as proposed with the use of FY2040. Likewise population predictions suggest that there will be a change in the balance between rural and urban locations, with increasing concentrations in cities.¹ Therefore it is difficult to predict what services will be required to replace the satellite and fixed wireless services after their useful asset lives of 15 to 20 years. There are issues with using a period longer than the useful life of the asset, as it could negatively impact on the services provided after the assets have been decommissioned. This could result in the need to recoup a large residual loss and a delay in upgrading of technology until after the loss has been fully recouped. The timeframe chosen will depend on the financial forecasts available.

While saying this, ACCAN understands that the cost of the non-commercial services is prohibitively expensive and that recouping the cost in a shorter timeframe may not be feasible. Therefore ACCAN thinks that in assessing the time frame the BCR should be guided by the useful life of the assets involved (FY2030 might be a more useful timeframe), with the potential to recover only part of the losses or to write off some of the capital costs.

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[http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3222.0Main%20Features62012%20\(base\)%20to%202101?opendocument&tabname=Summary&prodno=3222.0&issue=2012%20\(base\)%20to%202101&num=&view=](http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3222.0Main%20Features62012%20(base)%20to%202101?opendocument&tabname=Summary&prodno=3222.0&issue=2012%20(base)%20to%202101&num=&view=)

Question 4: Are the proposed principles relevant and applicable for considering NBN non-commercial service funding arrangements?

ACCAN is supportive of the principles of transparency, economic efficiency, contestability, sustainability and equity. These are all important in considering the funding of non-commercial services.

Question 5: Should the BCR consider additional principles? If so, what are they?

The BCR should consider the principle of bypassability. By this ACCAN means that the funding for non-commercial services cannot be bypassed and that the unintended effect of commercial decisions by other wholesale providers is minimised. We think this is a valuable principle to consider as end users may experience detrimental consequences if the services provided are limited due to the desire of providers to provide reduced services to avoid contributing to the funding of non-commercial services. There is a concern that this may happen through the definition of high speed broadband providers which must fund the non-commercial activities, i.e. networks that can achieve 25Mbps and greater. Suppliers of ADSL, for example, may be reluctant to upgrade to VDSL in order to avoid contributing, or wholesalers may be reluctant to expand if their market share or revenue will bring them under the eligibility criteria. These may result in below optimal investment in infrastructure, anticompetitive behaviour and fewer choices for consumers.

It is also important to identify what is a substitute service and what is a complementary service. BCR notes in its consultation paper the commercial developments of other services such as mobile and low earth orbit (LEO) satellite services which may compete for services in these areas. Will these services be considered substitute or comparable services, if they deliver speeds deemed to be considered a high speed broadband network and will they therefore be liable to contribute? The USO industry levy is sourced from telecommunication providers, not necessarily bodies that offer equivalent infrastructure. However, ACCAN is cautious of including these alternative networks in the levy scheme as the plans offered by these bodies are unlikely to have similar inclusions.²

Question 6: To what extent could financial reporting support transparency of the allocation of equity, debt and revenues towards non-commercial services?

The allocation of equity, debt and revenue within nbn™ will be important in clearly identifying the costing of each technology and supporting future upgrading and contestability.

It is also important given the intention of nbn™ to develop commercial products over these networks, for example inflight Wi-Fi³ and collocating with mobile companies and supplying backhaul⁴. It is important that these are easily identifiable, and that it is clear to see that these services are providing a commercial return and contributing to the funding of these services on a commercial basis, including common costs.

Question 7: What issues are associated with maximising economic efficiency in developing NBN non-commercial service funding arrangements?

ACCAN agrees that levies to fund these non-commercial services are likely to reduce the take up of services elsewhere. Establishing a levy on broadband services with the aim of increasing usage and affordability of broadband services in areas that otherwise are under-served is likely to have a

² There is a difference in the level of data allowance in mobile plans compared to fixed line networks.

³ <http://www.theage.com.au/it-pro/government-it/nbn-satellites-to-allow-for-inflight-wifi-on-qantas-and-virgin-20141127-11vvse.html>

⁴ <http://www.zdnet.com/article/nbn-co-and-optus-co-build-mobile-towers/>

distortionary impact in the commercial footprint. Affordability of products is a concern for a number of end users. 43% of households with income of \$40,000 or less, do not have an internet connection.⁵ Other groups in society are also less likely to interact online, with affordability being a factor, e.g. people with disabilities, the elderly, tenants and Indigenous communities. Added to this is the fact that communications products are regressive, a larger proportion of disposable income goes to communication services in the lower income quintiles, than the higher income quintiles. Funding of non-commercial services through general taxation would be more equitable, as this is progressive. The effect of funding the non-commercial areas should be given careful consideration. If the contributions are not balanced correctly then overall welfare may be reduced. Furthermore the financial stability of nbn™ and benefits from the NBN rely on take up of services across society.

Question 8: In designing NBN non-commercial services, how can pro-competitive market conditions for the provision of both non-commercial and commercial services best be achieved?

ACCAN is concerned that the model is being fixed so that only fixed wireless and satellite technologies are considered non-commercial services and nbn™ is the only provider that can supply these areas. The technologies that are used to supply services in these areas should not be constricting. In the future, nbn™ may decide that supplying fixed line services to premises is more economical and feasible, while still being non-commercial and requiring a subsidy. This may be particularly the case if the Statement of Expectations is revised and a higher level of service is required to be delivered. Therefore principles should be established, which include safeguards, that are technology and competitively neutral and easily allow for the transition to a fully contestable market. ACCAN believes that transparency and neutrality in technology and competition will support a competitive market.

Question 9: What issues are associated with developing sustainable NBN non-commercial service funding arrangements?

The BCR should ensure that the funding arrangements put in place are required, and meeting the needs of end users. They should be sufficiently flexible so that they can be up dated over time. An issue with the USO has been that it is fixed on the one service, even though consumers' needs and requirements have changed over time. Despite the legislation not stating the technology required to deliver the services, the set up and model has reinforced the copper network and model. Likewise, the contract length to provide these services, and the legislative requirements that the services have to meet, constrain the policy and do not allow it to be updated. This threatens the sustainability and reduces the value for money achieved. Furthermore encompassing all universal access policies under one framework, as discussed in a later question, would aid in the sustainability of non-commercial communication services. Therefore ACCAN suggests that the BCR should be reluctant to restrict the funding of these services by using lengthy timeframes or specific requirements. The principals, as identified, should be the priority.

Substitute products may make providing services in non-commercial areas commercial and the nbn™ fixed wireless and satellite networks underutilised. In this situation it would be unsustainable to consistently increase the costs of commercial services to fund these networks. This should be

⁵ <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8146.0Chapter12012-13>

considered in the sensitivity analysis. The potential sale of the non-commercial or commercial networks needs to also be modelled as they may impact on the sustainability of the services.

Question 10: What equity issues need to be considered as a result of NBN non-commercial service funding arrangements?

ACCAN has equity concerns over the funding of non-commercial services. Firstly, in relation to end users outside the fixed footprint, we are concerned that they may have to pay for two services. While broadband wholesale prices over nbn™ may be priced capped – communication retail services (broadband and phone services) are not. Consumers outside the fixed footprint will end up paying significantly more to have equivalent communication services. For example, broadband plans in fixed wireless and FTTP areas are priced the same with many RSPs, for example iiNet prices a 25/5 Mbps plan with 250GB of data for \$74.90 regardless of technology. This includes a ‘Netphone’ (VoIP) with free local and national calls. However, if end users feel that a VoIP service is not sufficient and want to have a home phone, then the consumer in the fixed wireless area will be penalised with a more costly product compared to end users in the FTTP area. For the consumer in the FTTP area they can add a ‘Fibre phone’ for \$19.95, which is over the UNI-V port and includes local and national calls (additional \$10 to include mobile calls).⁶ End users in the fixed wireless areas will pay \$29.95 for a home phone over the legacy network. This does not include any calls, which cost per call or an additional \$20 for a local, national and mobile pack.⁷ Therefore consumers outside the fixed footprint have to pay \$20 a month more than those in the fixed footprint to have an equivalent communication service (broadband and dedicated phone service). Satellite areas will face the same issue, however, whereas in the fixed wireless area a VoIP service may be a substitute service for fixed voices services over the legacy network, many satellite consumers may opt to have a separate phone service as standard.

Furthermore, end users in the satellite areas will be charged additional charges compared to those in the fixed footprint and fixed wireless, such as charges for connection, relocation, disconnection of previous government subsidy dishes and repair.⁸ This, in effect, is nbn™ passing through some of the costs to fund these services to the consumer. The BCR should take into consideration that consumers in these areas are not receiving an equivalent service at the same price, but are in fact paying additional prices for these services. In order for an equivalent service and equity, nbn™ should bare these costs and they should be included in the funding model of non-commercial services. Affordability is being addressed by price caps at the wholesale level, but not at the retail level. Not all consumers will have access to the same prices; therefore there are significant equity issues.

Secondly, ACCAN has concerns that consumers who are served by a network that is capable of providing 25Mbps or greater, but who opt for a slower service will contribute, while those using equivalent services will not be contributing. NBN was designed to provide a high speed broadband network, yet the basic entry package on NBN is 12/1Mbps. This is not a high speed broadband service but all consumers on the network will be contributing to the funding of non-commercial services. In fact some ‘Legacy Services’ provide greater speeds than this. A consumer on ADSL may receive up to 24Mbps and through their retailer may not be contributing to the funding of non-

⁶ <http://www.iinet.net.au/internet/broadband/nbn/fibre-phone/#feature-tabs>

⁷ <http://www.iinet.net.au/phone/home/>

⁸ <http://www.zdnet.com/article/nbn-considers-connection-charges-for-satellite-users/>

commercial services, while a consumer on a 12/1Mbps plan on NBN will. ACCAN is concerned that consumers may be charged for being on a high speed network when they are not receiving the benefit of a high speed network.

Furthermore with the price caps and the flexibility for nbn™ to lower prices to compete in commercial areas, ACCAN is concerned that prices will be lowered in competitive areas and not in other areas. The reduced price might not reflect the true cost to deliver the services in the fixed line area resulting in an artificially low price that is subsidised by other parts of the network that are priced at the cap, producing further areas that are non-commercial. Little benefit is likely to result from cross-subsidisation on the fixed footprint in order for nbn™ to compete and retain customers. End users are unlikely to receive any benefit from this as RSPs price nationally. This further exacerbates the funding model of nbn™, increases the return required from other areas and reduces the affordability of the services. On the other hand, if the competitive cost does reflect the true cost but it does not lower the price across all of nbn™ products, then nbn™ services may be uncompetitive in other areas and the number of RSP's serving these areas are likely to be reduced as they will concentrate on serving consumers in competitive POI areas. Areas where there is competition will result in positive consumer outcomes if these pricing areas apply pressure to other areas, create benchmark prices that inform the market and increase discipline on nbn™.

Question 11: What are appropriate mechanisms and measures to ensure equitable outcomes?

The NBN model has equity issues, as described above, so the resulting price model and funding requirements will also inherently have equity issues. It is important that equity is a priority principle. ACCAN believes that the BCR needs to consider the end users' services to ensure that there are equitable outcomes. By focusing on wholesale providers, technology and arbitrary headline speeds of technology, there are likely to be unequitable results and un-proportional contributions from end users.

Question 12: Is a discounted cash flow methodology based on NBN Corporate Plan projections an appropriate approach to modelling NBN non-commercial service losses? If not, why not?

ACCAN is supportive of a discounted cash flow method being applied in the model, however, as stated in question 1, the implementation of this is important. The time of recovery is important, as is the ability to adjust for under and over recoveries.

Question 13: What, if any, issues arise in using NBN Co Corporate Plan financial estimates for the purpose of assessing NBN non-commercial service losses?

The ability to obtain accurate and detailed forecasts is important.

Question 14: Is a fully allocated cost approach appropriate for the treatment of NBN non-commercial services? What are the strengths and limitations of this approach?

ACCAN has some concerns that such an approach will limit the incentives on nbn™ to minimise cost, further to our reply to question 1. Distributing common costs can be an arbitrary process. The weighting applied to each network for their portion of the common costs will be important. Furthermore, if the NBN model develops (for example portions of the network are sold) the re-distribution of the common costs may result in increased costs for the other areas of the network. If

the more commercial networks are sold at a later stage then the common costs applying to non-commercial networks are likely to increase significantly.

Question 15: What are the relevant issues in determining a discount rate for NBN non-commercial services?

ACCAN is guided by the fact that the non-commercial services are fulfilling a social inclusion objective of Government policy and that this should be reflected in the chosen discount rate.

Question 16: What discount rate should be considered for NBN non-commercial services?

ACCAN is not in a position to provide a discount rate.

Question 17: What issues arise when considering the application of a terminal value for calculating NBN non-commercial services?

In an industry such as telecommunications it is difficult to model revenue, expenditure and terminal values so far ahead. ACCAN is cautious about applying a terminal value as the model is designed to fund the non-commercial services over the set period.

Question 18: What are the key sensitivities or scenarios which should be considered?

The key sensitivity that the BCR should model is varied take up rates, both in the commercial and non-commercial areas and discount rates. These could be magnitudinally different to the model, resulting in significant variations. As discussed in question 5, the substitution or complementary nature of other technologies will also be important. If consumers are using the communication services to serve the same purpose and the plans allow similar inclusions then they should be considered in the modelling.

Question 19: Should NBN Co contributions toward NBN non-commercial services, and funding to deploy and maintain these services, be made via a Commonwealth account?

ACCAN supports the contributions being made via a Commonwealth account. This supports transparency and will aid in contestability of services, if that arises in the future, and future privatisation, if that arises.

Question 20: What issues should be considered when examining industry funding eligibility?

Eligibility that captures a large portion of the market should be considered. Consideration of substitute and complementary services should also be considered, as discussed in previous questions.

Question 21: Is it reasonable to apply a service standard to determine eligibility? If so, is a high speed broadband speed criteria based on a minimum download speed of 25 Mbps reasonable?

ACCAN has concerns over the eligibility criteria being set based on a minimum download speed. We discussed this in relation to question 10, on equity. Firstly, this may impact on the commercial decisions of potential and current network providers e.g. ADSL upgraded to VDSL, as this would make the service comparable with NBN services.

Secondly, while some networks meet the definition of high speed broadband, end users do not always get this. nbn™ is a perfect example of this. 38% of end users on nbn™ subscribe to services of

12/1Mbps⁹. As nbn™ meets the criteria of a NGB network, consumers on 12/1 plans will be subsidising non-commercial services, whereas consumers on Legacy Services, who may also achieve 12/1Mbps, will not contribute. There are equity issues to applying this definition to a network capability.

Thirdly, a policy around complementarity and substitutability should be developed to aid in the potential future to other telecommunication networks e.g. mobile networks, LEO satellites. These networks may as technologies develop meet the 25Mbps criteria for a NGB network, but ACCAN is not supportive of these being considered equivalent services. Safeguards and standards would need to be put in place to ensure consumers received quality services.

Finally, what consumers can do with the service needs to be considered, i.e. does the technology and plans offered over the technology allow the end user to utilise the service to the same level as the NBN network.

Question 22: In the context of NBN non-commercial services, what issues should be considered regarding eligible revenue or other eligibility thresholds?

ACCAN is supportive of a model in which funding contributions are based on equitable outcomes such as determining the contribution due from each body by its market share.

Question 23: To what extent is it appropriate to consider proportionality when developing funding arrangements?

Proportionality could affect competitive outcomes; therefore it is important that it is given consideration.

Question 24: Is it practical to consider contestability in the provision of NBN non-commercial services?

Provisions for contestability should be considered at this stage. While it is unlikely that the provision of these services will be contested in the near future, it is plausible that they may be contested in the future. It may be difficult to transition at that stage to a system that allowed contestability. Therefore to the greatest extent possible contestability should be considered at this stage.

Question 25: Would bill transparency arrangements be beneficial?

ACCAN is supportive of transparency of the funding of non-commercial services as informed consumers are more active and engaged. However, we would not be supportive of including this levy on consumer's bills. Other industry costs and levies that are funded through consumers, such as the Universal Service Obligation, National Relay Service or the data retention plan, are not identifiable on consumer's bills. It would not be right to only distinguish this levy. Furthermore it may add confusion to consumers, who often find bills complex as it is.

Question 26: Is it feasible for NBN non-commercial services to be reflected on end user invoicing?

ACCAN is not in a position to answer this.

⁹ <http://www.nbnco.com.au/content/dam/nbnco2/documents/150226%20NBnCo%20Half%20Yearly%20Report%20FY%202015.pdf>

Question 27: Is there opportunity to amend the existing USO collection arrangements to include NBN non-commercial services collection arrangements – noting that industry funding eligibility may be different?

ACCAN strongly believes that the USO arrangements could be amended to include the provision of broadband services in non-commercial areas. This would align the USO policy with the NBN policy. The current policy arrangements create multiple policies and models for the delivery and funding of universal access to communication networks (the NBN for the delivery of broadband network, the USO and Telstra for the delivery of telephone services over the copper network and the mobile black spots program for the delivery of mobile network). Amending the existing arrangements would be a step towards streamlining the policies. At a very minimum it would not create additional reporting, funding and policy arrangements to deliver this specific universal access objective.

Question 28: To what extent will elements of the SAU need to change to accommodate the introduction of NBN non-commercial service funding arrangements?

ACCAN is not in a position to answer this question.

Sincerely

Rachel Thomas

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