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The Director
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Attention Richard Bullock,
Director Market Analysis, Bureau of Communications Research

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Dear Richard,

**SUBMISSION TO THE BUREAU OF COMMUNICATIONS RESEARCH
NBN NON-COMMERCIAL SERVICES COSTING AND FUNDING OPTIONS**

Macquarie Telecom thanks the Bureau of Communications Research for the opportunity to contribute to its consultation on the costing and funding options for NBN non-commercial services.

Macquarie Telecom is a full services communications company offering a suite of business grade voice, mobile, data, cloud computing and hosting services. Macquarie Telecom is an Australian business focussed on business and government customers. We have been operating for over 20 years and we have significant experience and expertise within the Australian medium sized business retail and wholesale telecommunications markets. The fair and transparent operation of the NBN is crucial to achieving competitive outcomes in these markets.

Please find attached Macquarie Telecom's submission in response to the Consultation Paper.

Yours faithfully,

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NBN NON-COMMERCIAL SERVICES COSTING AND FUNDING OPTIONS

SUBMISSION BY MACQUARIE TELECOM LIMITED

IN RESPONSE TO THE BUREAU OF COMMUNICATIONS RESEARCH CONSULTATION PAPER

EXECUTIVE SUMMARY

As invited by the BCR¹, instead of presenting a detailed answer on each of the 28 questions posed by the BCR for consideration, Macquarie Telecom has formulated a submission summarising the key overarching industry and policy issues that arise for Macquarie Telecom in considering the various funding and costing options for NBN non-commercial services.

Macquarie Telecom submits that the funding options must be considered in the context of the overarching social and competition policy issues existent in the telecommunications industry in Australia. When the impact of these contradictory and overlapping frameworks are understood, a full consideration of options to ensure NBN costs are recovered at an aggregate level can take place. Put another way, until the impact of all relevant incomes and costs to NBN, Telstra and Telstra's competitors are factored into any cross subsidy analysis, it is unlikely that the NBN policy vision of wholesale only, open access, structurally separated networks and national uniform access pricing broadband services will deliver competitive outcomes for consumers.

INTRODUCTION

The Australian Government has asked the Department of Communications' Bureau of Communications Research to consider economically sound ways to fund the rollout of the National Broadband Network to regional Australia. Under the current arrangements NBN Co funds non-commercial services through an internal cross-subsidy. The BCR has been tasked with:

1. quantifying the losses from non-commercial services; and
2. developing transparent funding arrangements that support competitive market outcomes.

Macquarie Telecom notes that the BCR will conduct a further consultation process on its draft conclusions in the third quarter of 2015 and considers that now is a critical time to ensure that the high level policy settings are well-established before the detailed consultation.

This submission is targeted at those high level policy settings. In that context, Macquarie Telecom notes that the NBN is intended to deliver a national broadband solution that will optimise access and competition across Australia. To achieve this Macquarie Telecom submits that key policy objectives must be implemented to address policy shortfalls of the past. Macquarie Telecom sees those key policy issues as:

- Ensuring the roll out of the NBN promotes fair and open access wholesale infrastructure.
- Ensuring any levy is transparent and equitable. To achieve this, the subsidies and cost base must be made transparent
- Ensuring that the costs funded by the levy are "efficient". The policy settings should not allow for "over-recovery". Macquarie Telecom considers that costs should be calculated on an incremental costs basis.

¹ Bureau of Communications Research NBN non-commercial services funding options Consultation Paper, section 8

- Determining the contribution due in an equitable and proportional way for example, by market share and from appropriately qualified market participants (for example, with minimum revenue streams from relevant services).
- Promoting competition, particularly in regional areas currently constrained by the distorted regional market.
- Ensuring that subsidies take into account substitution over other technologies, for example 4G mobile.

DISCUSSION

Macquarie Telecom submits that the Review will be seen as narrow and incomplete unless it considers a holistic account of subsidy arrangements.

There is now a confusion of funding to maintain non commercial services – specifically to regional consumers. The funding arrangements include some ongoing funding and some specific programs targeted at stimulating new infrastructure. This is confusing for two reasons; first because of duplication and secondly, because the underlying policy thinking seems inconsistent. For example:

- NBN itself is intended to provide infrastructure to support universal new generation broadband access, including access in areas where there is overlap with the cross subsidy mechanism under review here.
- USO is intended to support access to a range of basic services, the standard telephone services, for which the NBN will offer substitutes. Further, technological innovation means that the subsidy to deliver a specific high cost service might have been more efficiently used to deliver a lower cost service albeit at an equivalent end user experience.
- The Mobile Black Spots program is offering capital subsidies to assist mobile network to extend their network reach. This program has been preceded by many other programs with a similar goal.
- The Regional Backhaul Blackspots Program to extend alternative transmission infrastructure to large parts of regional Australia.

Some of these programs (USO and NBN cross subsidy) are intended to compensate for a shortfall in operating revenue against operating costs, although USO has never specified the services in this category.

NBN is intended to subsidise the uncommercial capital costs of infrastructure in some locations, although this infrastructure is in many cases only uncommercial because there is an incumbent (Telstra) that is being subsidised by the USO.

Some are intended to duplicate infrastructure in locations where it is believed this will in turn stimulate downstream competition (RBBP, Mobile Blackspots) although it is acknowledged that the incumbent does not offer competitive wholesale access prices because it is vertically integrated and selling retail mobile and fixed services in competition with its wholesale customers.

In these circumstances, MT submits that the first step in the process of considering how options for funding non-commercial NBN services must be to end program overlap and duplication, much of which is at the expense of competition, when it should be seeking to promote it.

MacTel submits that the starting point should be the recognition that the USO is rendered obsolete by the advent of the NBN. An ongoing operational cost subsidy for the legacy network should not persist when an alternative network has been built by the public precisely for the purpose of replacing it. The USO should be abolished as the NBN becomes available in regional areas.

The capital subsidy element of the NBN and the capital subsidies provided under the RBBP and Mobile Blackspots programs should be treated in the same way. On the one hand, the RBBP and Mobile Blackspots subsidies are Government grants that lower the cost to establish infrastructure, which can then be used to offer competitively priced services. That is, the grants reduce the hurdle to establishing competitive infrastructure. Subsidy is then not required to recover operating beyond the commercial access prices.

On the other hand, the obligation on the NBN as the recipient of public capital to build its infrastructure is that it must provide all downstream retail operators equivalent access, and must not offer retail services in its own right.

The same principle of open access requirement should be applied to beneficiaries of capital grants. They should not be entitled to capture all the benefits of the public support to enter non-commercial markets but should be required to provide equivalent access to alternative retailers to maximise the benefit to consumers.

Consistent with these principles, any internal NBN cross subsidy should be calculated on an incremental cost basis. This recognises that it represents an operating subsidy to NBN.

CONCLUSION

In conclusion, Macquarie Telecom suggests that at this point it is important to establish overarching open and transparent policy settings. In doing so, there should be a separation of the commercial interests of Government as owner of NBN Co from the policy settings that determine the appropriate level of subsidies. le; they should be set by reference to independent analysis and in a robust policy framework: not driven by commercial interests.

The current policy arrangements create multiple policies and models for the delivery and funding of universal access to communication networks (USO arrangements). The policies should be streamlined so that the existing USO is replaced by new and more elastic arrangements for NBN, which allow for flexibility in response to changing technologies and substitutable services so that the market is not distorted by the application of the levy.

Appropriate consideration should be had to the basis on which the levy is raised and issues such as addressable services need to take into account broad substitution technologies to ensure that the levy remains equitable and does not distort competition away from the services it is trying to support.

Macquarie Telecom looks forward to consulting further with the Bureau of Communications as it continues the review and consultation process.

19 June 2015
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