

Submitter: (Mr) R V Barbero

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## Submission to *Independent cost-benefit analysis and review of regulation*

### Summary

It is of grave concern that a project of the magnitude and complexity of the NBN has proceeded thus far without being subjected to rigorous cost benefit analysis. Besides rescinding basic telecommunications service competition through re-nationalisation of wholesale network provision, there is major risk that capital expenditure would exceed planned totals by a substantial margin, and that realised demand would fall well short of planned forecasts, thus locking Australia into high-cost telecommunications service provision in the long term.

### Views on Structural Questions

The NBN Plan rules out the retention and use of the existing Telstra and Optus hybrid-fibre coaxial (HFC) cable networks. If they are not deployed for NBN broadband, this would result in gross waste of national resources, for the following reasons:

- . it is understood that, collectively, Telstra and Optus HFC networks pass about 2.7 million premises, and about a further 0.7 million premises are in the geographic area bounded by the networks, but currently not passed;
- . the upgrading of these networks to provide download data rates of 100 Megabits per second (Mbps) and upload rates of 30 to 40 Mbps would be relatively low-cost compared with FTTP (fibre to the premises), and would be achievable in a much shorter time frame;
- . thus, it is estimated that about a third of all Australian households would be serviced relatively inexpensively and quickly by adopting the option of extending and upgrading the Telstra and Optus HFC cable networks;
- . it is understood that iiNet provides HFC network capacity to private premises in certain Victorian regional areas, that meets the upgraded performance;
- . furthermore, further HFC network upgrades to 1,000 Mbps data rates would become possible once DOCSIS 3.1 equipment hits the market in the next 3 to 5 years ( see Simon Hackett paper at <http://simonhackett.com/2013/12/14/hfc-in-the-nbn/>);
- . it is considered that the upgraded HFC networks that are pole-mounted, could be replaced in the longer term by FTTPoles cable i.e. pole-mounted fibre cable networks, employing existing HFC cable lead-ins to the premises.

Telstra's BigPond Elite® Cable service on its HFC network already provides download speeds up to 30Mbps. That is the service to which I already subscribe. However, the suggested FTTP network with use of obsolete-technology copper network for the last 300 metres to premises, would mean downgrading service to only 25 Mbps and at not insignificant additional cost to subscribers.

The NBN Plan calls for cross-subsidisation across users. This would lead to many users being forced to pay more than their fair share of network costs, which is contrary to the national interest. Besides, this would lead to there being less discipline on the NBN network authority to provide network capacity at lowest efficient cost.

As the NBN Plan calls for a powerful monopoly provider of basic capacity, it is imperative that the responsible regulatory authority have the regulatory power necessary to keep the monopoly supplier compliant at all times, so as to best serve the national interest. Consequently, it is not considered appropriate to have the ACCC continue as the regulator. An independent regulator similar to the USA's Federal Communications Commission, should be considered.

It is considered in the national interest to not have a monopoly wholesale network. It reduces the efficiency achieved from having competitive network providers. Where possible, parts of NBN network provision should be opened to competition, e.g. to multi-dwelling apartment blocks.

Besides growing competition coming from mobile network providers, there would be growing competition from new fixed technology such as regional WiFi. Consequently, there is high risk that the forecast demand growth envisaged in the NBN Plan would be eroded by competing technologies.

As the NBN Plan calls for pricing to be set to earn a return on capital invested, it is essential that the invested capital be subject to very tight control and kept to a minimum.

Notwithstanding, there is a major risk that such pricing will be set too high, thanks to capital expenditure over-runs and/or below-forecast realised demand, and consequently Australia would become burdened with the highest broadband capacity prices in the developed world.

In conclusion, in the interest of fostering efficiency in NBN wholesale capacity supply and avoiding adverse cost impacts on commercial users, it is considered mandatory that all applications for wholesale price increases be disallowed by the wholesale price regulator. In other words, unit capacity wholesale prices should be regulated to trend downwards in the long run, consistent with general technological price trends.