



NBN Co submission to the Joint Standing Committee on the National Broadband Network's 'Inquiry into the business case for the NBN and the experiences of small businesses'

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Introduction

NBN Co Limited (NBN Co or the Company) welcomes the opportunity to provide a submission to the Joint Standing Committee on the National Broadband Network as part of its Inquiry into the business case for the NBN and the experiences of small businesses. NBN Co has provided some comments against each of the Terms of Reference and also provides extra detail in regard to the Company's approach to Enterprise in a separate section.

While NBN Co has not provided a running commentary on the points raised in submissions, there were some fundamental points that will be addressed. For example, there were calls in submissions for significant reductions in NBN Co's wholesale pricing. It is important, firstly, to recognise that NBN Co wants retailers to be successful and actually needs them to be successful. We engage constructively with the industry on a wide variety of issues, including pricing and, as this submission will show, we have recently made several pricing changes in direct response to those discussions. It should not be forgotten, however, that NBN Co also needs to be sustainable in the long-term in order to complete the build, pay back debt, and maintain and upgrade the network.

The value of reliable, fast and secure broadband to small business is also becoming increasingly apparent, but there is much more work required to educate this sector. As this submission will show, NBN Co is working closely with industry partners to build understanding, not only of the many benefits of increased technology investment, but also of the various products and services available beyond a residential-grade connection. Some of the projected revenue growth in coming years will come from businesses seeing this value proposition and taking up a service delivered over the **nbn**TM network. We are seeing very encouraging progress that gives us confidence in these forecasts. In this respect too, however, NBN Co is listening to industry and recently made some changes to how we operate in the enterprise space that go to issues raised in submissions to this enquiry.

Another driver of revenue is offering people the option to increase their bandwidth as their needs increase. This was part of the original model, which saw people moving up the speed tiers as demand grew and stands in contrast to the legacy ADSL network where speeds average less than 8 Mbps¹ and the option of selecting a higher speed was generally not available. When comparing **nbn** pricing to legacy pricing it is important to keep that difference in mind.

In summary, NBN Co has made great strides over the last decade in bringing broadband to the whole country, but a sustainable business model is vital for the Company to continue investing in the network, and to continue lifting the digital capability of Australia.

¹ <https://www.accc.gov.au/consumers/internet-landline-services/broadband-performance-data>



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Comments in relation to the Terms of Reference

Compliance with the NBN Statement of Expectations and adequacy of that Statement

NBN Co's Board is accountable to the Commonwealth Government and is working to deliver a network that meets the Statement of Expectations issued by the Government on 24 August 2016. The Corporate Plan 2020-23 is focussed on meeting the requirements of the Statement of Expectations.

NBN Co is working to complete the build of the nbn™ access network and ensure that all Australians have access to fast broadband as soon as possible, at affordable prices, and at least cost to taxpayers. In addition to building and maintaining a network that is resilient and secure, and as set out in the Statement of Expectations, NBN Co is committed to delivering access to peak wholesale download speeds of at least 25 megabits per second (Mbps) to all premises, and at least 50 Mbps to 90 per cent of the fixed-line premises.

After a decade of planning, design and construction, NBN Co is on track to deliver the volume rollout of the nbn™ access network by the end of this financial year. As we have stated publicly, when the volume rollout is completed later this year there will still be some premises that do not meet these conditions for a variety of reasons including the ongoing nature of new development applications and external heritage and other approval processes. NBN Co is working to ensure that these premises are connected as quickly as possible.

Ultimately, the Statement of Expectations is a matter for the Shareholder, and NBN Co will work closely with Government as the Company moves into the next phase of operations.

The economics of the NBN, including key operational and financial performance forecasts in the Corporate Plan 2020-23

The 2020-23 Corporate Plan forecasts peak funding of \$51 billion, which is composed of \$29.5 billion in Commonwealth equity, a Commonwealth Government loan facility of \$19.5 billion and \$2 billion in private sector debt. NBN Co forecasts achieving a 3.2 per cent return on the Commonwealth's equity investment of \$29.5 billion. As stated in the Corporate Plan, residential ARPU is expected to grow to \$49 per month in FY23, stimulated by an expected increase in customer take-up of plans based on higher wholesale speed tiers and increased data consumption. The Corporate Plan forecasts total revenue in FY23 of \$5.9b, which is composed of \$4.7b from residential and \$1.2b from business customers.

Achieving these revenue forecasts and minimising operational costs are obviously crucial in delivering the EBITDA. Any surplus funds after maintenance capex and interest can then be invested into the network if consumer demand warrants it. This is a vital element of the business model: the company must maintain strong cash flows in order to continue investment into the network and to meet demand as it emerges. The nbn™ network is not just being built for today and retailers will have to be able to provide customers with services that meet their needs well into the future.



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NBN Co also invites the Committee to consider what it will really mean for our vast continent to have, for the first time, universal access to broadband. It means, for example, that hundreds of thousands of homes and businesses that previously had little or no connectivity, will have access to fast reliable broadband. These are homes where children could not do their homework, where entrepreneurs could not build small businesses, and where the elderly could not keep in touch with family through video calls. Some of these impacts are readily measurable and some are not.

We know from the Connecting Australia Report² that the nbn™ access network is making substantial social and economic differences to the lives of Australians. The report, commissioned by NBN Co, found that by the end of the volume roll-out in June 2020, the nbn™ access network is expected to be contributing more than \$10 billion a year to the economy. There are also other benefits that the nbn™ access network is delivering today. We know from this research that in nbn™-connected areas the average rate of growth in digital economy jobs is outpacing the national average by a factor of five and that the number of self-employed women in these regions is growing at a rate 20 times faster than in non nbn™-connected areas.

Current pricing structures, including wholesale pricing, affordability and take-up, particularly as they relate to low-income and rural and regional customers

Decisions at NBN Co are driven by two important factors: how can we make customer experience better, and how we can we do that in collaboration with the industry. To get the most out of this critical national asset, industry must continually find new and better ways to work together to deliver better customer experience and service. There are recent examples of industry collaboration, including the introduction of better value plans through our wholesale pricing consultations and also in customer experience programs – such as improving wiring and wi-fi in the home.

In November last year, after five months of extensive consultation with RSPs and industry groups, NBN Co released³ the Wholesale Pricing Review 2019 Close-out Paper, which further targeted five key areas:

1. lifting take-up in under serviced consumer segments;
2. promoting much higher speeds;
3. improving support for RSPs in the face of increasing demand for broadband;
4. creating a regular cadence for future pricing consultations; and
5. making it simpler and easier for RSPs to do business with NBN Co.

Outcomes of the consultation included:

- annual increases in data capacity inclusions for most discount bundles

² The Connecting Australia report was commissioned by NBN Co through independent research agency AlphaBeta in 2017. It combines national census data with an Ipsos survey of 3500 individuals across 1700 postcodes in metropolitan, regional and remote areas, including those connected to the nbn™ access network and those not connected. The Connecting Australia report can be found at: http://www.connectingaustralia.com.au/pdf/Connecting_Australia_Report.pdf

³ <https://www.nbnco.com.au/corporate-information/media-centre/media-statements/nbn-confirms-new-wholesale-discount>



- Ability for Retail Service Providers (RSPs) to share unused data capacity inclusions from discount bundles across all geographic areas associated with 121 Points of Interconnect (POIs)
- Plans to introduce an overhead allowance for the downstream component of most fixed line wholesale speed tiers, where possible, to assist RSPs to supply higher retail peak download speeds to customers
- Two-year discount bundle roadmap to provide RSPs with greater certainty on future wholesale prices and data capacity inclusions

As part of this announcement, NBN Co introduced three new wholesale high-speed tiers and associated bundle discounts, which will be available from May 2020. These include a 100/20 bundle discount starting with 3.75Mbps of included CVC capacity at an effective charge of \$58 per month; a 250/25 bundle discount starting with 4.75Mbps of included data capacity at an effective charge of \$68 per month; and an up to 1000/50 bundle discount starting with 5.75Mbps of included data capacity at an effective charge of \$80 per month.

Our wholesale broadband agreement with retailers also continues to play an important role in setting the parameters of industry success. NBN Co is in discussions with retailers about the next iteration of this agreement which will help define the right level of balance between NBN Co, the retailers, and other critical industry stakeholders so that we clearly understand all points of view, roles and responsibilities, and so we can work together to make sure all Australian get the most out of their broadband connections.

While there is good collaboration in many areas, it is also to be expected in any industry that retailers will challenge the prices set by wholesalers. A number of submissions reference international comparisons to NBN Co's pricing. It is misleading, however, to simply compare the price in Australia with the price overseas. It is well known in economics that the price of non-traded goods will always be higher in richer countries than poorer ones due to what economists call "the Balassa-Samuelson effect".

NBN Co commissioned research⁴ from AlphaBeta to compare retail prices in Australia to prices overseas. When performing this research across over 4,500 product and pricing plans, in 22 countries, AlphaBeta adjusted for this effect and took into account household income giving a better measure of affordability when comparing broadband prices between countries. AlphaBeta also separated other bundled products, to enable a like-for-like comparison of just high-speed broadband access. The analysis revealed that Australia is one of the most affordable markets for broadband. The median broadband price in Australia is equivalent to 1.4% of Australian per capita income, which is the 7th lowest among the 22 countries analysed.

⁴ https://www.nbnco.com.au/content/dam/nbnco2/images/blog/190306%20NBN%20Broadband%20Affordability_FINAL.pdf



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NBN Co does want to make broadband as widespread and available as possible, however. NBN Co introduced a modified 12/1 Entry Level Bundle on 1 October 2019, and the Company fast-tracked a rebalancing of the 25Mbps bundle discount, which was implemented on 6 December 2019, in response to retailer, ACCC and industry calls for price reductions on entry level wholesale products. Both initiatives are helping to help ensure that nbn services remain affordable, particularly for price-sensitive customers, and we will continue to work with the ACCC and retailers on targeted discounts into the future.

During consultations as part of NBN Co's 2019 Wholesale Pricing Review, retailers advocated for greater certainty on future wholesale prices, more included data capacity and better value for money. In response, the Company announced in November last year⁵ new bundle discounts, national pooling of CVC capacity, the introduction of an AVC overhead allowance, annual reviews of bundle discounts and CVC inclusions, two-year price forecasts and capacity inclusion roadmaps. To address growing data consumption, NBN Co has also substantially increased CVC capacity inclusions across most of its discount bundles. This continues to create greater value, which is helping to make broadband even more affordable despite consistent increases in data demand. Since 2016, NBN Co has more than halved the effective wholesale price of CVC, which applies to purchased capacity.

The Regional Broadband Scheme (RBS), which is currently the subject of inquiry by the Senate Environment and Communications Legislation Committee, is an important part of helping ensure the ongoing provision and affordability of broadband services to rural and regional customers. NBN Co provides broadband services to rural and regional customers at an overall loss to the Company, which is subsidised by the provision of profitable services in metropolitan areas. The cross-subsidy is an integral part of the nbn™ model and provides an ongoing funding source for the provision, maintenance and upgrade of services to rural and regional Australians in order to help bridge the digital divide. The RBS is a partial offset of the cross-subsidy and means that some providers who only invest in profitable broadband services, yet compete with NBN Co, are required to contribute to the cost of loss-making services in rural and regional Australia.

Network coverage issues; including reporting of outages planned and unplanned

A central premise of the nbn™ access network is to allow ubiquitous access to fast broadband right across Australia, to unlock the associated social and economic benefits in households and businesses, in every corner of our country. Through the multi-technology mix (including fibre to the premise, fibre to the curb, fibre to the node, fibre to the basement, hybrid fibre coaxial, fixed wireless and satellite technologies), NBN Co is helping to ensure that Australians can benefit and participate in the digital economy as soon as possible. NBN Co also understands that consumer demand for data downloads and uploads is growing rapidly and this requires the ongoing adoption of technology upgrades to ensure the Company can maximise use of its network infrastructure and future expansion to build out the nbn fibre footprint further into rural and regional Australia.

⁵ The closeout of the 2019 Wholesale Pricing Review announcement can be found at: <https://www1.nbnco.com.au/corporate-information/media-centre/media-statements/nbn-confirms-new-wholesale-discount>.



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With respect to the Fixed Wireless network, NBN Co announced in 2018 a further \$800 million commitment for capacity upgrades to accommodate increased utilisation and rising consumer demand for data in rural and regional areas. Due to the interlinked nature of the Fixed Wireless network, these capacity upgrades have necessitated, in some cases, a series of network outages so that works can be undertaken to improve capacity and facilitate faster speeds on the network. While NBN Co provides at least 10 business days advance notification of planned network outages to retailers, the Company understands that notifications have not always been relayed to end customers by retailers in a consistent way and that this can cause inconvenience and disruption.

As part of NBN Co's ongoing commitment to improve customer experience, making key information available and fostering further collaboration with retail service providers, the Company wants nbn™-connected customers to be able to easily access the most up-to-date information on network outages that may be affecting their service. Customers can now access information about network outages, with the launch of the first phase of a network status webpage⁶ on the NBN Co website. This platform provides location-specific information about planned and unplanned outages and by simply typing in their home or business address, customers can check the current status of their service and stay informed about planned outages, with a 10-day look ahead for fixed-line customers.

NBN Co anticipates supplementing the network status webpage in the first half of this year with further detailed information on planned outage timings and an equivalent 10-day look ahead for fixed wireless customers once the full capability of the website is up and running. The Company understands fixed wireless customers are particularly interested to know of any upcoming planned outage timings and the Company is working towards launching this functionality as soon as possible this year.

The delivery of the business segment strategy, including to enterprise and government customers, and small to medium businesses

NBN Co is committed to providing access to high-speed broadband to Australian businesses to support the creation of new jobs, expand businesses and support productivity. The Company exists to serve not just residential customers, but also business customers with high-speed broadband no matter where, and no matter the size of the organisation. Today there are more than one million businesses using the nbn™ access network, and a dynamic market of retailers with access to business grade services is helping Australian enterprises realise their potential. The Telsyte Australian Digital Workplace Study 2019⁷ found that businesses connected to the nbn™ access network were more likely to be increasing their use of cloud tools, were saving money and time and had improved access to interstate and international markets.

⁶ The network status webpage can be found at <https://www.nbnco.com.au/support/network-status>.

⁷ "Beyond Disruption: Australian organisations race to digital transformation success", May 2019.
https://assets1.dxc.technology/au/downloads/Beyond_Disruption_2019_-_a_DXC_Digital_Study.pdf



NBN Co believes the market is responding well to its range of specialised business products and services, national reach and the ability to access the benefits of ongoing retail competition. For the Company, the delivery of the business segment strategy provides an opportunity to partner with retailers to engage in profitable deals, contributes a source of revenue that enables the Company to continue to reinvest and upgrade the network, generates opportunities to build-out our fibre footprint further into Australia's regions and brings cost-efficiencies to the business through an expansion of NBN Co's end customer base.

The experiences of small and medium business in relation to the utilisation, accessibility, customer service and affordability of the NBN

While increased connectivity, affordability and the cloud have made business technology for large companies more accessible, the majority of Australian small businesses are yet to fully embrace the opportunities afforded to digitise their systems and processes. Fast, reliable, secure broadband has created an unprecedented technology-based opportunity to level the competitive gap between small business and big business. Never before have smaller businesses had the same access to tools, at affordable prices, to take on the bigger end of town. There is a need, however, for much more education, not only of what is available, but also of exactly how technology can benefit businesses.

In November 2019, NBN Co commissioned a report⁸, prepared by AlphaBeta with the support of accountancy firm Xero, that used anonymised business accounting data from tens of thousands of Australian small businesses to show how small investments in technology can yield big dividends. Key findings from the report, *Connecting Australia: the big future of small business*, include:

- On average, small businesses spend less than one per cent of total revenue on technology, or around \$5,000 a year.
- Firms with the highest technology spending growth between 2015 and 2017 saw higher rates of revenue and employment growth.
- Internet spending had the most powerful effect on firm performance.
- Technology spending has not grown as quickly as overall revenues, suggesting that technology has become more affordable for small businesses.

The data highlights a gap in technology adoption. It reveals the potential benefits for small businesses if they can overcome awareness, skill, and resourcing challenges to embrace more technology. NBN Co recognises this and has an established team of Community and Stakeholder Managers (nbn™ local) that delivers comprehensive small business, stakeholder and community engagements programs across Australia. The aim is to help educate and shift businesses to the appropriate plans, to improve customer experience and support the expansion of Australian businesses.

⁸ "Connecting Australia: the big future of small business", November 2019.
http://www.connectingaustralia.com.au/pdf/Connecting_Australia_Small_Business.pdf



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The nbn™ local model has had a demonstrable positive impact on customer education, experience and advocacy since its inception in September 2017. NBN Co has also committed to a significant expansion of this program to include specialist resources, such as small business specialists, to provide tailored solutions that address local priorities across Australia in regional, rural (nbn™ local) and metropolitan (nbn™ metro) communities. This commitment includes plans to develop and implement digital literacy frameworks and strategic programs, in consultation and partnership with industry, government and communities across three key metrics: Access, Affordability and Digital Ability. NBN Co is also working with industry bodies such as the Council of Small Business Organisations Australia (COSBOA), Australian Information Industry Association (AIIA) and the Australian Chamber of Commerce and Industry (ACCI), to identify opportunities to engage with businesses and provide information to help to improve their digital capability by uplifting digital literacy.

In addition to this industry engagement, NBN Co has developed a suite of online tools to assist businesses of all sizes to order a retail solution powered by business nbn™ from a service provider. (www.nbnco.com.au/business):

- **Solution Finder** - an online tool designed to help businesses better understand the voice and data needs of each business site, including programs used and levels of service support.
- **Online toolkits** – including practical information on how to make the switch, **nbn** business success stories, list of Retails Service Providers, fact sheets etc
- **Tips to optimise your office set-up** - these tips will help you make informed decisions about your connection, so you can have the best possible internet set-up in your office
- **ICT Channel Partner program** – access to 1000+ trained business nbn™ accredited advisers, supporting business customers across Australia get the most out of the nbn™ broadband access network.

NBN Co's approach to provision of Enterprise services

From the original Implementation Study, and in early corporate plans and statements of expectations, it was very clear that NBN Co would be offering services that retailers could provide to small and medium businesses and to large enterprises. As the volume build is drawing to an end, NBN Co has turned more attention to the enterprise market and has grown that part of the Company. As it has done so, NBN Co has structured processes and policies so as to operate within the law, which reflects the fact that NBN Co takes its regulatory obligations extremely seriously.

As with other spheres of the Company's operation, there is an ongoing dialogue with industry, and last month NBN Co announced two important initiatives in relation to its engagement in the business segment, both of which represent an evolution in the Company's approach and have been generally well received.

The first initiative is a proposal to augment NBN Co's fibre network as part of enterprise deals and seeking to avoid overbuilding existing infrastructure by utilising spare capacity in third-party dark fibre, with the objective of lowering the expected economic costs and/or time to delivery compared to the Company deploying its own infrastructure.



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When it comes to large enterprises, NBN Co has had two contracting models for provision of connectivity. The Company has contracted through retailers and has also contracted directly with some enterprise customers to build connectivity ahead of those customers engaging one or more RSPs to provide operational broadband services. The second initiative is a decision to evolve NBN Co's enterprise contracting model so that retailers will in all cases have the direct contractual relationship with enterprise customers (this evolution does not apply to NBN Co's well-established New Developments Program and Technology Choice Program, which the Company will continue). The Company is currently consulting with industry on both initiatives to determine how best to implement and operationalise the approaches.