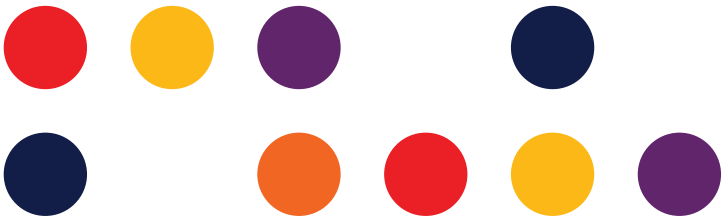
Supplementary submission to the Joint Standing Committee on the NBN

September 2020



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About TPG Telecom

TPG Telecom Ltd (TPG) was formerly named Vodafone Hutchison Australia Limited. TPG owns and operates nationwide fixed and mobile network infrastructure. TPG is the second largest retailer of NBN services and the operator of leading internet brands TPG, iiNet, Internode and Vodafone.

TPG's fixed network infrastructure consists of more than 27,000 kilometres of metropolitan and inter-capital fibre cable as well as international subsea cable connecting Australia to major hubs in North America and Asia. TPG operates the Vodafone mobile network comprising more than 5,600 sites. This includes a 4G network covering over 22 million Australians and a 5G network which is being rolled out, as well as a strategic portfolio of spectrum assets.

Summary

Vodafone Hutchison Australia provided a submission to the Committee's inquiry on 20 December 2019 and appeared before the Committee on 28 February 2020.

Since then, there have been substantial increases in fixed broadband usage as a result of COVID-19. As a result, the issues we raised in our testimony before the Committee – in particular the need for reform of NBN wholesale pricing – have become even more critical to ensure NBN retail service providers (RSPs) can continue to meet their customers' expectations of affordable and reliable services, at a time when they are dependent more than ever on their NBN service.

In providing a service over the NBN, RSPs must purchase both the Access Virtual Circuit (AVC) and Connectivity Virtual Circuit (CVC) services from NBN Co. The AVC is a fixed monthly charge to supply a customer with an NBN service. The CVC is a variable monthly capacity charge which depends upon how much dedicated bandwidth the RSP buys per customer. The amount of CVC an RSP purchases is one of the most significant influences on the speed and performance of the NBN service experienced by that RSP's customers.

The fixed AVC monthly charge increases for higher speed plans. Combined with increasing CVC charges in order to provide the higher bandwidth customers generally expect on higher speed plans the NBN pricing model discourages RSPs from offering higher speed data plans, thereby effectively implementing a "speed tax" on RSPs. This consumption-based wholesale pricing also means that while customers pay a flat monthly rate for their unlimited data service on the NBN, RSPs are faced with unpredictable and ever-increasing costs.

NBN Co has made improvements to its pricing in recent years which have provided some relief for RSPs. In particular, the introduction of 'bundles' of included CVC capacity for each speed tier helped remove some of the risk and uncertainty for RSPs and deliver a more reliable service for customers, especially those on higher speeds. This didn't assist consumers seeking a lower speed tier entry level NBN service however as the bundles contain disproportionately higher amounts of CVC on the higher speed tier products.

As customer data usage has continued to grow these CVC capacity inclusions have been quickly outstripped and some RSPs now face significant NBN 'overage' charges, particularly on entry level products. This natural growth in usage has accelerated rapidly as a result of the COVID-19 pandemic.

The obvious solution is the removal of the CVC charge and the shift to flat-rate wholesale charges for NBN speed tiers. There are many open access fibre networks in the world, but only NBN Co has sought to introduce an artificial handbrake on the performance on its network through its unique CVC charge.

Reform of NBN Wholesale Pricing

TPG submits that sustainable NBN pricing which ensures affordable and reliable NBN services can only be achieved through the removal of the CVC charge and a shift to flat-rate wholesale charges for NBN speed tiers.

The CVC charge is effectively a usage-based charge that adds costs on RSPs to increase the dimensioning (capacity) of their NBN services. If an RSP does not purchase enough capacity this will impact the performance of a customer's NBN service.

To avoid significant congestion and speed reductions for consumers in the traditional peak busy hour periods (typically 7pm to 11pm), RSPs must increase the amount of CVC capacity purchased per customer as customer usage increases. As customer usage is increasing and the peak busy hours have expanded as many customers work from home, so too has the cost to the RSP of the CVC required each month, thus creating an unsustainable margin squeeze for RSPs. RSPs can only avoid the costs of increased usage by increasing the likelihood that their customers will face periods of congestion on the NBN, thus slowing the speed of a customer's broadband service in peak periods.

NBN Co's CVC charge has seen significant cost increases for RSPs to provide the same service to their customers. This means that over the last ten years, RSPs have endured substantial ongoing increases in costs to provide the same speed tier products to consumers.

In 2010, the NBN Corporate Plan observed that the average NBN customer consumed around 6GB of data per month.[1] For a nbn12 or nbn25 service, the CVC cost was about $1

[1] NBN 2010-11 Corporate Plan p.120.

per month (providing 200Kbps of CVC per customer)[2] which resulted in a combined AVC/CVC cost of $25 per month for nbn12 and $28 per month for nbn25. In 2019, the average customer on an ADSL service (a reasonable proxy for nbn12 and nbn25 customers)[3] used 153GB of data per month,[4] and to avoid congestion it would have been prudent for an RSP to provide at least 1.2Mbps per customer for these services.

Taking into account NBN Co's 'dimension-based discounts' arrangement, the CVC cost was around $15, with a total AVC/CVC cost for the nbn12 product of $39 per month and the nbn25 product of $42 to $45 per month. In other words, between 2010 and 2019, RSPs endured a 50 to 60 percent increase in costs to provide the same nbn12 and nbn25 products to their customers. This has made both speed tiers uneconomic for RSPs at current retail market prices, which has been exacerbated by COVID-19.

NBN Co has been consulting with RSPs and has recently proposed improvements to the nbn12 wholesale pricing, which we welcome. However, to enable RSPs to manage the significantly increased bandwidth requirements resulting from the pandemic, and to ensure ADSL customers are not worse off, we are urging NBN Co to commit to a wholesale cost for the nbn12 product of $35 per month. This should also include immediate and ongoing increases in the amount of CVC capacity included, in line with growing customer usage.

In the absence of the removal of the CVC, we are also seeking immediate increases in CVC inclusions for all NBN speed tiers which should continue to increase every six months in line with customer demand. One option floated by some in the industry is CVC increases which are based on an agreed compound annual growth rate (CAGR) for data.

As well as ensuring NBN services are more affordable - particularly the entry level speed tiers - the removal of the CVC will result in a significant increase in NBN broadband speeds. To demonstrate the CVC's handbrake on NBN speeds, it is useful to compare the Australian and New Zealand fixed broadband experience. Both countries started their national broadband rollouts around the same time, and this has taken place over the last decade. In New Zealand however, the wholesale market has facilitated a far greater customer shift to higher broadband speeds than in Australia.

In June 2012, both countries had similar speed tier mix profiles. 91 percent of Australian consumers were using fixed broadband services that delivered less than 24 Mbps[5]. In New Zealand, this figure was 98 percent[6].

Six years later in June 2018, 65 percent of Australian consumers were on fixed broadband services delivering 24Mbps or greater[7]. In New Zealand this figure was 95 percent.[8] As at

[2] Ibid.
[3] Noting that most NBN end users consume considerably more than typical ADSL customers because the speed performance is generally more reliable.
[4] https://www.businessinsider.com.au/australian-broadband-usage-telstra-2018-9.
[5] https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8153.0December%202016?OpenDocument (Table 2)
[6] https://www.stats.govt.nz/information-releases/internet-service-provider-survey-2016 (Table 4)
[7] https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8153.0June%202018?OpenDocument (Table 2)
[8] https://www.stats.govt.nz/information-releases/internet-service-provider-survey-2018 (Table 4)

December 2019, some 18 months later, Australia was still lagging New Zealand with 86 percent of consumers on fixed broadband services delivering 24Mbps or greater[9]

The key difference between Australia and New Zealand is that New Zealand's 'Ultra-Fast Broadband' initiative is based on flat rate charges for each of the speed tiers offered rather than variable charges depending on guaranteed capacity, and the differences in pricing are relatively modest as the speed tiers increase. It is therefore more attractive for New Zealand RSPs to offer faster speeds than it is for Australian RSPs.

NBN Co's price changes of the last few years have been a collection of 'rebalancing' steps that have moved us gradually closer to the New Zealand pricing approach. We urge NBN Co to transition to the inevitable sooner rather than later.

Please direct any questions regarding this submission to Tim McPhail, Head of Public Policy.

[9] https://www.accc.gov.au/regulated-infrastructure/communications/monitoring-reporting/internet-activity-record-keeping-rule-rkr/december-2019-report (Table 1)