

Regional Broadband Scheme (RBS) Levy submission 2024

16 December 2024

Key recommendations

This submission recommends:

- > Supporting the ACCC's proposed approach to amending the Regional Broadband Scheme.
- > The adoption of a building-block model (BBM) approach for the estimation of non-commercial services.
- > The exclusion of historical losses from the calculation of the RBS Levy.

About this submission

The Australian Communications Consumer Action Network (**ACCAN**) is pleased to provide this submission to the Australian Competition and Consumer Commission (**ACCC**) on the Regional Broadband Scheme (**RBS**) Levy.

The RBS is critical to the funding of non-commercial regional, rural and remote NBN services. ACCAN supports the positions of the ACCC, which will strengthen confidence and trust in the RBS by ensuring that the levy reflects the efficient costs of delivering non-commercial services.

Introduction

ACCAN thanks the ACCC for the opportunity to provide comment on the *Regional Broadband Scheme (RBS) levy – Approach to future costing* consultation and position paper.

ACCAN supports the ACCC's proposals, which reflect sound advice consistent with the prudent and efficient delivery of non-commercial services and long-term interests of end-users. Consumer confidence and trust in the RBS levy arrangements to support regional, rural and remote non-commercial services will be supported by transparency, accountability and cost-reflectiveness in the calculation and administration of the levy.

The RBS levy should be set to reflect the prudent and efficient costs required to support the delivery of non-commercial regional, rural and remote broadband services. By setting the RBS levy to reflect prudent and efficient costs, the RBS levy can impose the least possible burden on consumers, constrain distortions to the pricing of superfast broadband services, promoting efficiency and the long-term interests of end users.



**Australian Communications
Consumer Action Network**

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ACCAN is the peak body that represents consumers on communications issues including telecommunications, broadband, and emerging new services.

ACCAN provides a strong unified voice to industry and government as we work towards communications services that are trusted, inclusive and available for all.

Proposed modelling approach

ACCAN supports the adoption of a Building-Block Model (**BBM**) approach for calculating the base component of the RBS levy. Adoption of a BBM approach is preferable as it facilitates the accurate estimation of the prudent and efficient costs of delivering non-commercial services and constrains the potential for overestimation of costs associated with Discounted Cash Flow (**DCF**) modelling.

As noted by the ACCC, there are material weaknesses associated with the application of a DCF model, including intertemporal inequity due to the shifting of economic costs between time periods. ACCAN notes that in addition to the inequity associated with the shifting of costs between periods, that cost shifting of this nature may distort RBS levy costs and prices over time. This may result in inefficient use of superfast broadband services due to price distortions, returns on investment and result in sub-optimal investment in telecommunications infrastructure.

Proposed treatment of historical losses

ACCAN supports the proposed exclusion of historical losses from the RBS levy calculation. As noted by the ACCC, historical losses are not relevant to forward-looking investment and other decisions concerning the supply of NBN services and, consequently, should be excluded from the levy.

In ACCAN's view, only the economic inputs that contribute to the delivery of services should be included within the scope of the RBS levy. Accordingly, we strongly support the exclusion of the estimated \$7.526 billion in past losses from the period of 1 July 2009 and 30 June 2020.

Setting the RBS to reflect the efficient costs of service delivery is critical to promoting economic efficiency and minimising the potential for distortion to broader broadband markets. Further, as noted by the ACCC, the recovery of historical losses may result in temporal inequity. As noted above, distortions of this nature are not consistent with the long-term interests of end users.

Proposed modelling period

ACCAN supports the adoption of a five-year modelling period for future expenditure and revenue for non-commercial fixed wireless and satellite services. In the context of rapidly evolving patterns of consumer demand and available technology, the adoption of a five-year modelling approach is appropriate, noting that the current twenty-year modelling period is likely to result in material forecasting errors.

The reduced complexity of the proposed five-year period would result in more accurate forecasts and will allow for more precise assessments of costs in the medium to long term when policy makers have a better understanding of the technological capabilities of, and market demand for, emerging technologies.

Other issues

Taxation treatment

ACCAN supports the adoption of a benchmark taxation allowance approach for the estimation of a taxation building block as part of a BBM approach. The adoption of a benchmark approach would ensure that any taxation allowance calculated under the BBM would align with the efficient resource cost of supplying fixed wireless and satellite services.

Cost Allocation

ACCAN supports forecasts of cost and revenue data for the calculation of an updated RBS levy to align with the approach set out in NBN Co's Cost Allocation Manual. In ACCAN's view, the adoption of a fully distributed cost methodology, with direct and shared costs being subject to recovery, is preferable as it retains a relationship between shared costs and fixed wireless and satellite services.

ACCAN notes that the extent to which shared costs may be reasonably attributable to the delivery of fixed wireless and satellite services may be a function of the model used for the delivery of these services and that, consequently, this issue should be revisited in subsequent reviews of the RBS levy.

For example, in the event that NBN Co delivers satellite services via an outsourced model, the relationship between shared NBN costs and the indirect cost of service delivery may be limited, so it may be more efficient and accurate to estimate the RBS levy by reference to avoidable direct costs.

Rate of Return

ACCAN supports the ACCC developing a common methodology for benchmarking the rate of return that aligns with the methodology applied to NBN Co for the delivery of non-commercial RBS levy funded services and core monopoly services. The methodology for estimating the weighted average cost of capital (**WACC**) is critical to determining the efficient financing costs of NBN Co, a significant component of the wholesale prices passed through to consumers.

In keeping with the importance of the WACC to consumer prices, ACCAN encourages the ACCC to undertake a comprehensive benchmarking process, with appropriate consultation and engagement, in keeping with broader practices for developing the rate of return in other regulated sectors.

Forecasts of expenditure, revenue and demand

ACCAN supports the ACCC's position that detailed expenditure, revenue and demand forecasts for non-commercial services should be provided to facilitate the calculation of the efficient costs to be included in the RBS levy. ACCAN supports the rigorous assessment of proposed expenditure and the demand forecasts underpinning expenditure by the ACCC.

Accuracy in demand forecasting is critical to ensuring that proposed expenditure aligns closely with the actual expenditure required to support the delivery of non-commercial services. ACCAN supports the ACCC scrutinising forecast demand closely to ensure that estimates are based on a sound methodology to ensure the effective delivery of services for regional, rural and remote consumers.

Government and other grants

ACCAN supports the proposed position of the ACCC that government grants provided for operating expenditures are netted out from the RBS levy. As noted by the ACCC, this approach would prevent the potential for double recovery of expenditures.

Levy charging base

In ACCAN's view, the RBS levy charging base should be set to include services that can be reasonably considered to be substitutes for a residential superfast broadband service. Accordingly, we consider that:

- 5G services that provide fixed superfast broadband services to residential dwellings, with a speed in excess of 25mbps, should be included within the RBS levy; and
- 5G and 4G mobile internet services, which may provide variable speed services, with speeds that may fall below 25mbps, should be excluded from the RBS levy.

ACCAN notes that the technical parameters for inclusion within the RBS levy should be subject to consideration by the ACCC and consulted on further in advance of providing final advice to the Minister regarding the scope of the RBS levy.

This approach is consistent with the intent of the RBS levy, which is to ensure that superfast broadband services contribute to the funding of non-commercial regional, rural and remote internet services in an efficient and equitable manner.

Start date for updated levy

ACCAN supports the commencement of a revised RBS levy at the earliest opportunity to ensure that RBS levy charges accurately reflect the efficient costs of delivering non-commercial services. The commencement of the 2025-26 financial year is supported by ACCAN as the earliest practical start date for the revised RBS.

Conclusion

The RBS levy should reflect the genuine costs associated with the delivery of non-commercial regional, rural and remote services. By setting the levy transparently and ensuring that the charges imposed reflect the economic costs of providing non-commercial services, the RBS levy can impose the least possible burden on consumers while promoting the interests of the broader community.

ACCAN supports the positions set out by the ACCC, which will ensure that the RBS levy reflects the actual cost of delivering non-commercial services. The positions proposed are consistent with the efficient delivery of regional, rural and remote services and will support confidence and trust in the RBS levy by applying a rigorous and accountable framework to calculate the costs of these services.

The Australian Communications Consumer Action Network (ACCAN) is Australia's peak communication consumer organisation. The operation of ACCAN is made possible by funding provided by the Commonwealth of Australia under section 593 of the Telecommunications Act 1997. This funding is recovered from charges on telecommunications carriers. ACCAN is committed to reconciliation that acknowledges Australia's past and values the unique culture and heritage of Aboriginal and Torres Strait Islander peoples. [Read our RAP.](#)
