



# **RMID0821 NBN Pricing Review Consultation Paper 2**

Submission by the Australian Communications Consumer Action  
Network

October 2019

## **About ACCAN**

The Australian Communications Consumer Action Network (ACCAN) is the peak body that represents all consumers on communications issues including telecommunications, broadband and emerging new services. ACCAN provides a strong unified voice to industry and government as consumers work towards availability, accessibility and affordability of communications services for all Australians.

Consumers need ACCAN to promote better consumer protection outcomes ensuring speedy responses to complaints and issues. ACCAN aims to empower consumers so that they are well informed and can make good choices about products and services. As a peak body, ACCAN will represent the views of its broad and diverse membership base to policy makers, government and industry to get better outcomes for all communications consumers.

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# 1. Lifting take-up

ACCAN notes that one of the objectives identified by NBN Co. is to raise take-up. ACCAN believes that lifting take-up of NBN services is most likely to be achieved through the creation of a targeted concessional offering for low income households who have extremely limited capacity to pay. Low income households spend a higher proportion of income on communications services,<sup>1</sup> and have increasingly reported that NBN services are unaffordable for them,<sup>2</sup> with 44% of consumers reporting that they find NBN services expensive.<sup>3</sup> Therefore, ACCAN welcomes the announcement of a dedicated consultation process to develop targeted solutions for these households.

Lifting the take-up of services will support the realization of the significant promise of the NBN project in terms of economic growth, productivity gains,<sup>4</sup> and considerable savings for consumers through cost-effective access to services. These benefits are material, with the NBN expected to generate benefits in the order of \$1.2 billion per annum, growing to a total of over \$10 billion by 2021.<sup>5</sup> The broader benefits through improved access to health services, government services, and education and employment opportunities outstrip the immediate benefits of the NBN by several orders of magnitude.

Ensuring that everyone shares in the benefits of digital transformation requires the creation of service offerings that meet the needs and financial capacities of all Australians. The creation of a conditional offering will alleviate the well-documented affordability challenge faced by low-income households, for whom services have become less affordable since 2014.<sup>6</sup>

Importantly, the offering of a conditional service will not undercut the fundamental economics of the NBN if adequately targeted; noting that the fixed cost associated with the construction of the connection to these households has already been spent and is sunk – irrespective of whether these consumers choose to connect. Accordingly, the creation of a concessional service offering has the potential to lift take-up and connect many currently unconnected households, increasing NBN revenues.

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<sup>1</sup> Infrastructure Australia, *Infrastructure Audit* (2019) 584–585.

<sup>2</sup> TASCOS, *Understanding Digital Inclusion in Tasmania* (2019) 41.

<sup>3</sup> Infrastructure Australia (n 2) 562.

<sup>4</sup> *Ibid* 567.

<sup>5</sup> *Ibid* 584–585.

<sup>6</sup> Ellie Rennie, Julian Thomas, *Measuring Australia's Digital Divide: The Australian Digital Inclusion Index 2019* (RMIT University, 2019) 14 <<https://apo.org.au/node/255341>>.

## 1.1 Modifying the Entry level bundle discount

NBN proposes to modify the Entry level bundle discount as follows:

- The starting price of \$22.50 and CVC inclusion of 150Kbps remains unchanged, but the additional charge that is applied for each service where the average monthly peak CVC usage across Entry Level Bundle services on a CVC is above 150Kbps will be reduced from \$22.50 to \$5.70 per Entry Level AVC.
- As industry has expressed an urgent need for continuity of ADSL-equivalent services, NBN will give effect to this change from 1 October 2019 by means of a partial waiver. To support traffic growth, NBN will further reduce the additional charge that is applied for each service where average monthly peak CVC usage across Entry Level Bundle services on a CVC is above 150Kbps to \$4.90 per Entry Level AVC in May 2020 and \$4.10 per Entry Level AVC in October 2020.

The effective charge for additional CVC capacity will remain at \$8/Mbps and can be pooled with higher speed services within the same connectivity serving area.

*Question 3.1. Does this solution meet your organisation's need for a bundle discount to support customers that require basic voice and data services?*

*The 12/1Mbps as a broadband service*

ACCAN is supportive of NBN efforts to refine the existing entry level bundle pricing arrangements to allow for its usage as an alternative to ADSL services. However, ACCAN is concerned that the proposed service as structured is unlikely see widespread take-up.

This view is based on our understanding that existing CVC usage indicates that a 12/1Mbps service would need to be provisioned at an average of 1Mbps of dedicated CVC per connection in order to ensure service quality. ACCAN questions whether at a 1Mbps inclusion it would make sound economic sense to offer a 12/1Mbps service, noting that at this level of provisioning the cost would be \$35 and therefore comparable to the revised 25/5Mbps service for which the cost would \$37 for an inclusion of 1.25Mbps.

ACCAN believes that an increase in the total inclusion for the entry level bundle would allow for the retailing of an ADSL equivalent service at a price point that would be attractive to consumers and households with low usage profiles. ACCAN proposes that increasing the CVC inclusion for the entry level bundle to 1Mbps and setting the price to be no more than the entry level charge resulting in an effective charge of \$22.50 would make the service more feasible as a combined data and voice service.

## Voice services

ACCAN believes that in order to make voice services more affordable and sustainable that there is a need to reduce the price of the entry level bundle for voice-only customers. ACCAN is mindful of proposals to reduce the wholesale charge to \$10 for a voice-only service offering. Although generally supportive of measures to reduce the cost of voice services for consumers, we consider that there is merit in examining the sustainability of these charges further through a dedicated consultation process.

### *Question 3.1.1 What share of sales does your organisation foresee using the modified Entry Level Bundle discount?*

ACCAN foresees that a limited number of retail providers with a significant contingent of price-sensitive, low data users may find the modified entry level bundle to be a feasible service to offer. In offering this service, ACCAN considers that these services are likely to see the re-emergence of data-caps and quotas in order to constrain peak demand, and thus represent a regression in service offerings.

Although a limited data service offering is likely to appeal to those households who are extremely light users of internet services, ACCAN does not consider that the service offering will be suitable for the vast majority of consumers. Accordingly, we do not believe that the service can feasibly be offered as a mass market product.

Were this service offering to re-emerge as a mass market product, ACCAN is concerned that the service would not meet the expectations of most consumers in terms of speed or data constraints. Accordingly, there is a risk of a repetition of the poor service outcomes faced by consumers prior to the movement to bundled pricing due to under provisioning of services or the mis-selling of 12/1Mbps as a high-speed broadband service.<sup>7</sup>

## 1.2 Rebalancing the 25Mbps bundle discount

NBN proposes to reduce the effective charge and included CVC capacity for the 25Mbps bundle discount as follows:

- Reduce the effective charge from \$45 per month to \$37 per month;
- Reduce the CVC inclusion from 2Mbps of CVC to 1.25Mbps of CVC.

The effective charge for additional CVC capacity will remain at \$8/Mbps and can be pooled with higher speed services within the same connectivity serving area.

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<sup>7</sup> Bill Morrow, 'Why Are Data Speeds Sometimes Lower than What Consumers Were Expecting? Is Nbn to Blame with Its Infamous CVC Charge?' 7.

*Question 3.2 Does this proposal meet your organisation's need for an intermediate bundle discount option?*

The proposed revision of the 25Mbps bundle discount service represents a substantive improvement in the value of the current bundle. However, ACCAN is concerned that the decrease in inclusions will merely shift the costs of service delivery from the bundled price to overage charges.

Accordingly, there is a genuine risk that the revised pricing structure will not result in a substantive reduction in the underlying wholesale cost of 25Mbps services, as any savings resulting from an on-paper reduction in price will be replaced through higher CVC overage expenditure costs, noting average CVC per connection is currently 1.75Mbps.<sup>8</sup>

Assuming an average level of provisioning for a service, the effective charge would be \$41. As a consequence, while the changes may result in short-term reductions in the cost of services, it is likely that as bandwidth demands increase that the underlying cost will increase from \$41 back towards the current price of \$45.

ACCAN does not consider that the proposed rebalanced 25Mbps bundle is likely to meet the needs of consumers and that the included CVC allocation will be insufficient to ensure quality of service. Therefore, in order to ensure that service speeds are maintained, it is foreseeable that retail service providers will need to invest in significant amounts of overage.

ACCAN considers that these issues could be alleviated by retaining the existing bandwidth inclusions of 2Mbps per connection while adopting the revised pricing structure of \$37. The adoption of a real reduction in wholesale costs would promote greater take up of the 25Mbps service and encourage retailers to offer the service as a more affordable alternative to the 50Mbps speed offering.

If the proposed construct outlined above were to be adopted, ACCAN considers that it would also be essential to allocate further uplifts in CVC inclusions as part of the roadmap in order to ensure that the pricing of the bundle is sustainable over the roadmap period.

*Question 3.2.1 What share of sales does your organisation foresee using the modified 25Mbps bundle discount?*

ACCAN is concerned that given data demands and projected usage patterns that the bundle is unlikely to be an attractive proposition for retailers to actively market the service. As a consequence ACCAN foresees that while the existing customer base for 25Mbps services is likely to be maintained, there will be limited expansion in the number of existing customers on 25Mbps services.

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<sup>8</sup> Australian Competition and Consumer Commission, 'June Quarter 2019 Report', *Australian Competition and Consumer Commission* (Text, 9 November 2018) <<https://www.accc.gov.au/regulated-infrastructure/communications/national-broadband-network-nbn/nbn-wholesale-market-indicators-report/june-quarter-2019-report>>.

*Question 3.2.2 If your organisation uses both “basic” and “bundled” CVCs, how will this impact your decision?*

N.A.

### **1.3 Targeted solutions for low income households**

ACCAN welcomes the proposed consultation on the development of a targeted concessional service offering. The creation of a targeted concessional service for low income households is an essential to ensuring that no Australian is left offline.

ACCAN believes that the development of targeted solutions should occur as a priority and that there is an urgent need to create service offerings that are affordable for low income consumers. ACCAN is concerned that if steps are not taken in the immediate future that many households will choose to remain unconnected or choose not to migrate to the NBN.

For many of these consumers this will entail either unnecessary financial hardship as they attempt to retain fixed broadband services or a material decline in the quality of the services that they currently access as they move to mobile broadband as a substitute. ACCAN is concerned that there are emerging signs that this is occurring in regions where the NBN project has been completed and where the migration window has already closed. This phenomenon is perhaps best reflected in the exceptionally poor take-up rates observable in Tasmania, where NBN take-up has lagged considerably below its target.

ACCAN believes that the consultation concerning the development of a concessional broadband service should occur as soon as possible, in order to facilitate the rapid implementation of the service offering. In ACCAN’s view, consultation should commence prior to the end of the calendar year, with a view to implement the offering in early 2020.

### **1.4 Targeted solutions for transitory customers**

ACCAN supports the further development of targeted solutions for transitory consumers, many of whom are missing the benefits of broadband due to the unsuitability of existing service arrangements for their needs. ACCAN considers that the feedback received by NBN Co and outlined within the consultation paper are reflective of the broader barriers to the take-up of fixed broadband services reported to ACCAN by renters.

Noting the absence of any specific proposals in the consultation paper concerning the creation of targeted solutions for renters and transitory customers ACCAN will seek to engage with NBN Co. further on the needs of these consumers.



## 2. Keeping ahead of consumer bandwidth requirements

ACCAN is supportive of greater transparency concerning forecast demand and would like to receive further information from NBN Co. and RSPs.<sup>9</sup> In principle, ACCAN considers that CVC inclusions should be set to reflect typical patterns of usage by households, with an appropriate array of offerings being made available that is consistent with their differing needs.

The arrangements for setting CVC inclusions should seek to align themselves with the representative user of a given service tier in order to ensure that inclusions reflect user needs. Accordingly, ACCAN considers that underlying principles for the setting of CVC inclusions should be established in order to provide for greater certainty for NBN Co. concerning CVC demand, for retailers in terms of cost inputs, and for consumers in respect to pricing.

### 2.1 Updating the 50Mbps

*Question 4.1. Does this solution meet your organisation's need for a bundle discount to support customers with higher data usage?*

ACCAN is supportive of the proposed two step increase in CVC inclusions for the 50/20Mbps service offering without an increase in the price of this offering. ACCAN considers that this represents a substantive increase in the value proposition of this service offering and will allow for the retailing of this service offering to remain stable as traffic increases in the future.

### 2.2 Consulting on new TC-4 100Mbps, 250Mbps and an up to 1Gbps wholesale speed tiers

*Question 4.2 Does this solution meet your organisation's need for bundle discounts to support customers with a need for video streaming and large amounts of data?*

ACCAN is supportive of the development of an array of service offerings that meet the needs of consumers. As noted elsewhere in this paper, we remain concerned that the CVC inclusions offered for the 250Mbps and up to 1Gbps wholesale speed tiers would be insufficient to make the service constructs feasible without considerably greater expenditure on overage per connection. As a consequence, although generally supportive of the reduction in pricing of these services as outlined in the consultation paper, we believe that the proposed construct will not be appealing to retailers and will not be marketed to consumers.

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<sup>9</sup> The Australian Competition and Consumer Commission, *Inquiry into NBN access pricing* Discussion Paper notes on p. 42 that the medium term forecast for data demand growth is 36% compounding year on year.

In addition, ACCAN has reservations about the stated uplink capacity of the proposed higher speed tiers and has concerns that the degree asymmetry between uplink and downlink may constrain the take up of the proposed service offerings. In our consultations with stakeholders, concern has been repeatedly expressed that there are extremely few applications that would require the download speeds of the high speed tiers while not also requiring considerably greater upload speeds than currently outlined in the service offerings.

*Question 4.2.1 What share of sales does your organisation foresee using the proposed 100Mbps, 250Mbps and 1000Mbps discount bundles?*

ACCAN is broadly supportive of the proposed changes set out within this paper with respect to high speed service offerings and supports the creation of service offerings that meet the needs of consumers. As the focus of the proposals outlined in this paper concerns premium residential service offerings, a market that is rapidly developing, our comments are constrained by the lack of information available about this market segment.

However, despite these constraints ACCAN believes that many of the proposals set out in this paper represent a material step forward in serving the needs of the premium consumer market. Further refinements of the offers set out in the paper are likely to be necessary over time and ACCAN encourages NBN Co. to revisit the proposed product constructs as part of the annual review process proposed in this paper.

## 3. Evolving non-recurring charges

### 3.1 Standardising AVC activation charges

*Question 6.1 Does your organisation support the standardisation of the service transfer, service transfer reversal, bulk service transfer and AVC re-activation charges as part of the WBA4 process?*

ACCAN supports the proposal of the NBN to standardise the charges set for AVC activation, service transfer, service transfer reversal, re-activation and bulk service transfers as part of the WBA4 negotiations. As part of these negotiations ACCAN considers that it would be appropriate for further consultation to occur concerning proposals to move from the existing activation charge regime to a new framework.

ACCAN would also like to express support for the proposal of the NBN to offer interim discounts on existing service transfer charges in the order of \$17.50 between 1 December 2019 and 30 November 2020. The reduction in service transfer charges decreases the cost of customer acquisition and will provide an incentive for stronger retail competition and better outcomes for consumers.

## 4. Balancing price and stability

### 4.1 Discount bundle charge and inclusion roadmap

*Question 7.1 Does your organisation have any feedback on the discount bundle review interval and proposed roadmap as described above?*

ACCAN supports the proposed roadmap outlined in the consultation paper, subject to our comments above, and notes that it has many elements which are consistent with our submission to the first pricing consultation paper. The adoption of an annual review process represents a significant step forward in addressing the significant uncertainty associated with the existing approach to the development of products and pricing.

ACCAN supports the proposed annual review of pricing and the provision of forward guidance on proposed CVC and pricing arrangements for an out period of two years. The creation of a standardised framework for reviewing pricing and CVC inclusions will provide much needed certainty to retail service providers and allow for forward business planning.

Although supportive of the approach to outlining future developments via the roadmap, ACCAN continues to have concerns about the level of CVC inclusion and the rate of growth in inclusions over the proposed roadmap. ACCAN notes that while traffic growth is increasing rapidly, the growth rate in CVC inclusions reflects an assumption of exceptionally low growth, or alternatively is geared towards the generation of considerable revenue through overage charges.

## 4. Letters in support of ACCAN's position

Please find attached on the following pages letters of support in relation to ACCAN's position from Anglicare Australia and the Regional, Rural and Remote Communications Coalition (RRRCC).

21<sup>th</sup> October 2019  
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## Re: RMID0821 Pricing Review Consultation Paper 2

Dear Mr Spozetta,

Anglicare Australia thanks NBN Co. for the opportunity to submit on the current pricing review.

Anglicare Australia wholeheartedly supports ACCAN in their work for ensuring that no Australian is left offline. We are a network of independent not-for-profit organisations whose mission is to “partner with people, families and communities to build resilience, inclusion and justice”. In all, 1 in every 20 Australians access Anglicare services throughout the year. Our services are delivered in partnership with people, the communities in which they live, and other like-minded organisations in those areas.

We would like to take this opportunity to reiterate our support for the development of a targeted concessional broadband service to facilitate access to broadband services by households on limited incomes and help close the gap so that No Australian is Left Offline.<sup>1</sup>

As ACCAN emphasise, the NBN project has the potential to deliver a multitude of economic and social benefits. Access to communications services has been proven to increase average household income and employment.<sup>2</sup> Digital connectedness reduces costs,<sup>3</sup> boosts productivity, and delivers better social engagement, health, and wellbeing. These benefits should be shared with all Australians.

However, we remain concerned that many Australians won't be able to afford the communications services they need. While the average household spends approximately 3.5% of its disposable income on communications, the bottom 10% of earners spends a little over 10%.<sup>4</sup> In the 2016 census, over 15% of consumers in the lowest income quintile indicated they had been unable to pay their utility bills on time in

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<sup>1</sup>. <http://accan.org.au/no-australian-left-offline>

<sup>2</sup> S Greenstein and R McDevitt, *Measuring the Broadband Bonus in Thirty OECD Countries* (OECD Digital Economy Papers No 197, 2012); NBN Co., *Connecting Australia* (2018).

<sup>3</sup> Deloitte Access Economics, *Digital Government Transformation* (2015).

<sup>4</sup> Bureau of Communications and Arts Research, *Trends and Drivers in the Affordability of Communications Services for Australian Households*, tr BCAR (Working Paper, 2017).




the previous year.<sup>5</sup> Rising communications costs will only widen the digital divide and leave the most vulnerable even further behind.

In spite of two decades of uninterrupted economic growth, inequality in Australia is now the worst it has been in seventy five-years<sup>6</sup>. What we know from the experiences of people who need support, and our Network members' work, is that people on the lowest incomes – such as Newstart and Youth Allowance – are living without a safety net. Their income levels have become poverty traps that are leaving pockets so bare that people can't afford to fill a prescription, buy decent food, even cover the cost of rent or let alone pay for digital access.

Our own research on the impact of Centrelink automation<sup>7</sup> on Anglicare staff and clients, showed that community support workers who have direct contact with clients were frequently asked to support clients with Centrelink issues. 66 percent of workers helped clients with getting online. Many of the people who access Anglicare organisations' services do not have internet access or only intermittent internet access at home, especially for those in remote areas, or have no data on their phone. There were also the challenges of having functional access but little understanding or comprehension about how computers work, which combined with literacy issues, made it very difficult to navigate their way through the system. To then find that broadband access is so unaffordable to people on low incomes simply adds insult to injury.

Anglicare Australia points to ACCAN's submission and its proposed concessional broadband service model as a way forward to making sure that those who truly need internet access the most are not excluded from NBN.

Yours Sincerely,



Roland Manderson

Acting Executive Director, Anglicare Australia

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<sup>5</sup> Australian Bureau of Statistics, *Government Benefits, Taxes and Household Income, Australia: Summary of Results 2015-16* (No 6537.0, 2018).

<sup>6</sup> Sheil, C., and Stilwell, F., *The wealth of the nation: Current data on the distribution of wealth in Australia* (2016).

<sup>7</sup> Hinton, *Paying the Price of Welfare Reform* (2018).

25 October 2019

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To whom it may concern,

**Re: RMID0821 Pricing Review Consultation Paper 2**

The Regional, Rural and Remote Communications Coalition (RRRCC) is an alliance of 21 organisations and advocacy bodies formed to advocate for better connectivity in regional Australia. The RRRCC thanks NBN Co. for the opportunity to provide a submission to the current pricing review.

The RRRCC supports the Australian Communications Consumer Action Network (ACCAN) submission to the pricing review. We would like to take this opportunity to reiterate our support for the development of a targeted concessional broadband service to facilitate access to broadband services by households on limited incomes and ensure No Australian is Left Offline.<sup>1</sup>

The NBN project has the potential to deliver a multitude of economic and social benefits. Access to communications services has been proven to increase average household income and employment.<sup>2</sup> Digital connectedness reduces costs,<sup>3</sup> boosts productivity, and delivers better social engagement, health, and wellbeing. These benefits should be shared with all Australians.

However, we remain concerned that many Australians won't be able to afford the communications services they need. While the average household spends approximately 3.5% of its disposable income on communications, the bottom 10% of earners spends a little over 10%.<sup>4</sup> In the 2016 census, over 15% of consumers in the lowest income quintile indicated they had been unable to pay their utility bills on time in the previous year.<sup>5</sup> Rising communications costs will only widen the digital divide.

By introducing a truly affordable service offering, NBN Co. will increase take-up and facilitate more equitable access to broadband services. The development of a concessional broadband service model would deliver on one of the five policy goals articulated in the RRRCC's *Priorities for action*

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<sup>1</sup> <http://accan.org.au/no-australian-left-offline>

<sup>2</sup> S Greenstein and R McDevitt, *Measuring the Broadband Bonus in Thirty OECD Countries* (OECD Digital Economy Papers No 197, 2012); NBN Co., *Connecting Australia* (2018).

<sup>3</sup> Deloitte Access Economics, *Digital Government Transformation* (2015).

<sup>4</sup> Bureau of Communications and Arts Research, *Trends and Drivers in the Affordability of Communications Services for Australian Households*, tr BCAR (Working Paper, 2017).

<sup>5</sup> Australian Bureau of Statistics, *Government Benefits, Taxes and Household Income, Australia: Summary of Results 2015-16* (No 6537.0, 2018).



document<sup>6</sup>. Under the policy goal *Affordable communications services for regional, rural and remote Australia* the RRRCC has called for the creation of a targeted concessional broadband service to support low income residents of regional, rural and remote areas. Providing access to affordable communications supports individuals and families to access essential services and engage in education and training in place, strengthening local communities.

Accordingly we endorse ACCAN's submission to this review.

Yours sincerely

**The Regional, Rural and Remote Communications Coalition**



<sup>6</sup> <https://www.nff.org.au/read/6550/rrrcc-media-bush-communications-coalition-in.html>