RMID0821 Pricing Review Consultation Closure Paper

November 2019

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1. Consultation purpose

In June 2019, **nbn** invited Product Development Forum (PDF) participants to comment on how **nbn**'s current pricing portfolio may be evolved. Drawing on the analysis of feedback received during the first consultation, **nbn** identified seven pricing updates, and consulted on those updates in a second consultation paper published in September 2019.

As with the first consultation paper, **nbn** received constructive and varied feedback from a wide range of retail service providers and industry bodies on the specific updates presented in the second consultation paper. As a result of this feedback, **nbn** has made several refinements. These are presented in this paper as the final outcome of the 2019 pricing consultation. The plans presented in this paper apply only to **nbn™** Ethernet over nbn fixed-line technologies, and do not apply to **nbn™** Enterprise Ethernet products, **nbn** satellite products or **nbn** fixed wireless products except as expressly noted.

In the interest of transparency, **nbn** has elected to make this paper available to the public.

This consultation paper will use the same structure as the first two papers in the series, namely:

- Lifting take-up – section 3.
- Keeping ahead of consumer bandwidth requirements – section 4.
- Simplifying CVC management – section 5.
- Evolving non-recurring charges – section 6.
- Balancing price stability and flexibility – section 7.
- Next steps – section 8.

2. Feedback from second phase of consultation

2.1 Themes

Two themes emerged from the collected responses to the second consultation paper: inclusions and simplicity.

2.1.1 Inclusions

While the feedback **nbn** received reflected varied expectations of traffic growth by different RSPs and industry bodies, the majority of respondents articulated the value of increasing the amount of CVC capacity included in **nbn**'s bundle discounts, and generally encouraged **nbn** to increase the size of CVC inclusions.

Respondents furthermore strongly advocated for periodic reviews of CVC inclusions, pointing specifically to the expected launch of streaming gaming services as a potential catalyst for traffic growth.

The updates outlined in this paper aim to address this feedback by increasing the bundled CVC inclusions of certain bundled discounts.

2.1.2 Simplicity

While the proposals to simplify CVC utilisation management in the second consultation paper were generally well received, several respondents suggested further ways in which CVC management could be simplified. Many RSPs encouraged **nbn** to move from the current CSA-based calculation of overage to a national calculation of overage.

Additionally, while the increased affordability of higher speed tiers was welcomed, **nbn** received constructive feedback on how the introduction of these speed tiers may be accelerated.

The updates outlined in this paper aim to address this feedback by changing the way overage is calculated, increasing the overage waiver threshold, and announcing the launch of a companion program to provide early access to the benefits of the forthcoming 100/20 discount bundle pricing.

3. Lifting take-up

3.1 Modifying the Entry Level bundle discount

In feedback received during the first and second rounds of consultation, RSPs, the ACCC and industry bodies highlighted that wholesale 12Mbps (PIR) services are an important tool with regards to maintaining a clear migration path from legacy ADSL to **nbn**. In response to this feedback, **nbn** has modified the Entry Level Bundle Discount as follows:

- The starting charge of $22.50 and CVC inclusion of 0.15Mbps remain unchanged, but the additional charge that is applied where the average monthly peak CVC usage across ELB services on a CVC is above 0.15Mbps was reduced from $22.50 to $5.70 per Entry Level AVC on the 1st of October 2019.
- To support traffic growth, **nbn** will further reduce the additional charge that is applied where average monthly peak CVC usage across ELB services on a CVC is above 0.15Mbps to $4.90 per Entry Level AVC in May 2020 and $4.10 per Entry Level AVC in October 2020. These reductions in the additional charge are monetarily equivalent to increasing the CVC inclusion of the Entry Level discount bundle by 0.1Mbps in May 2020 and a further 0.1Mbps in October 2020 (based on overage being calculated at $8/Mbps).

The effective charge for additional CVC capacity ("overage") will remain at $8/Mbps and can be pooled with the CVC inclusions provided with other discount bundles. This change will further assist RSPs to offer functional and affordable ADSL replacement services at ADSL-equivalent retail price points.

With this updated construct, RSPs can build retail products based on the following wholesale rates and inclusions:

ELB Example Application	Included Capacity	Effective Charge	Additional usage charge	Additional CVC $8/Mbps	Total effective wholesale charge
Voice-only	0.15Mbps	$22.50	-	-	$22.50
Voice and low data usage	0.15Mbps	$22.50	-	-	$22.50
Voice & 500Kbps CVC	0.15Mbps	$22.50	$5.70	0.35Mbps	$22.50+$5.70+(0.35Mbps*$8) = $31.00
Voice & 1Mbps CVC	0.15Mbps	$22.50	$5.70	0.85Mbps	$22.50+$5.70+(0.85Mbps*$8) = $35.00

Table 1 Modified Entry Level Bundle usage examples

Since the reduction of the additional charge on the 1st of October 2019, take-up of the Entry Level Bundle has more than doubled.

3.2 Rebalancing the B25 bundle discount

Originally launched to help RSPs migrate to "bundled" CVCs, a significant number of respondents to the first consultation paper asked for the wholesale 25Mbps bundle discount to be updated to be an intermediate option with a different balance of CVC inclusion and cost.

In order to support RSPs' use of the wholesale 25Mbps bundle discount as an input into an intermediate level retail offer **nbn** will effectively reduce the charge and included CVC capacity for the 25Mbps bundle discount for both fixed line and fixed wireless services from the 6th of December 2019. A customer will be able to order a wholesale 25Mbps bundle discount with:

- a charge of $37 per month rather than $45 per month.
- 1.25Mbps of included CVC rather than 2Mbps of included CVC.

Where the effective charge is reduced by the equivalent of 1Mbps of CVC overage ($8), the CVC inclusion is only reduced by 0.75Mbps. Accordingly, compared to the current wholesale 25Mbps bundle discount, this rebalancing provides RSPs with an additional 0.25Mbps of CVC capacity if they choose to maintain the current $45 effective charge, or a $2 saving if they choose to maintain the current allocation of 2Mbps of CVC.

4. Keeping ahead of consumer bandwidth requirements

The majority of respondents highlighted streaming video, and specifically streaming gaming, as an important application driving the need for higher download speeds and more data inclusions.

To meet this need, **nbn** has elected to increase CVC inclusions and make certain bundle discounts more affordable.

4.1 Introducing AVC overhead allowance

In the AVC Higher Speed Tier Product Construct Paper released in September this year, **nbn** proposed the concept of an 'overhead allowance' on certain AVC speed tiers.

This overhead allowance would involve **nbn** configuring existing AVC shapers to increase the achievable layer 2 peak downstream speed where network capacity permits, for the purpose of assisting RSPs to supply higher layer 3 peak downstream speeds to customers. RSPs would be invited to make a corresponding change to their shapers where required to enable this functionality.

RSP feedback to this proposal was strongly positive. Subject to internal operational requirements, **nbn** intends to introduce an overhead allowance for the downstream component of the majority of **nbn™** Ethernet speed tiers delivered over fixed-line technologies. **nbn** is targeting a launch of mid 2020 for this change. Further details about this program will be provided to RSPs in the coming months.

4.2 Updating the B50 bundle discount

In order to accommodate RSPs who are seeing a growth in usage of data-intensive applications, **nbn** will update the fixed line 50Mbps and Wireless Plus bundle discounts as follows:

- From May 2020, the CVC inclusion in the fixed line wholesale 50Mbps and Wireless Plus bundle discounts will be increased from 2Mbps to 2.25Mbps per AVC, while keeping the effective charge unchanged at $45 per month. This provides $2 of additional value of CVC capacity, at no additional cost to RSPs.
- From May 2021, the CVC inclusion will be increased to 2.5Mbps per AVC, while keeping the effective charge unchanged at $45 per month.

4.3 Consulting on new TC-4 100Mbps, 250Mbps and up to 1Gbps wholesale speed tiers[1]

The majority of respondents to the first and second rounds of consultation supported the development of lower priced wholesale 100Mbps, 250Mbps and up to 1Gbps TC-4 peak information rate product tiers.

High CVC inclusions were listed as an important feature of associated bundle discounts, with respondents suggesting that higher usage is likely to accompany the higher speed tiers. To accommodate both higher CVC inclusions and lower bundle discount charges, **nbn** will develop the following TC-4 peak information rate AVC product tiers and associated bundle discounts:

- A Higher Speed Tier 1 (100/20 Mbps) bundle discount starting with 3.75Mbps of included CVC capacity, which will subsequently be increased to 4.25Mbps in May 2021, at an effective charge of $58 p/m.
- A Higher Speed Tier 2 (250/25 Mbps) bundle discount starting with 4.75Mbps of included CVC capacity, which will subsequently be increased to 5.25Mbps in May 2021, at an effective charge of $68 p/m.
- A Higher Speed Tier 3 (up to 1000/50[2] Mbps) bundle discount starting with 5.75Mbps of included CVC capacity, which will subsequently be increased to 6.25Mbps in May 2021, at an effective charge of $80 p/m.

These new AVC product tiers and associated bundle discounts are targeted for release in May 2020. For more detail, please refer to "**nbn** Product Construct Paper, RMID0844 New AVC Higher Speed Tiers, September 2019".

While the new higher speed product tiers and bundle discounts are under development, **nbn** will make available early access to the effective charge of the 100/20 bundle discount for new sales of 100/40 bundled wholesale services (and 25-100/5-40 bundled wholesale services) as part of the "Hot 100" campaign.

For more information on this campaign, please refer to the "Hot 100 AVC Credit and Hot 100 Overage Waiver" pending change in the "Pending changes to the WBA3 Discounts, Credits and Rebates List" section of the **nbn** WBA website: https://www.nbnco.com.au/sell-nbn-services/supply-agreements/wba

[1] References to "speeds" and "speed tiers" in this paper are not to speeds achievable by end-users, but to wholesale layer 2 peak information rate bandwidth provided to the RSP. The end user experience, including speeds actually achieved over the **nbn**™ access network, depend on the configuration over which services are delivered to a premises, whether the end user is using the service during the busy period, and some factors outside **nbn**'s control (like equipment quality, software, chosen broadband plan or how a service provider designs its network).

[2] The precise nature of the PIR commitment for HFC is being consulted on and is subject to change as further detailed in the AVC Higher Speed Tier Product Construct Paper.

5. Simplifying CVC management

nbn's bundle discount terms currently include detailed conditions requiring RSPs to ensure they are purchasing enough CVC capacity to meet the usage demands of their customers.

In the second consultation paper, **nbn** proposed simplifying the CVC utilisation conditions, and reducing the breach consequences to address RSP concerns about CVC administration complexity. While there was wide support for these changes in the received feedback, some RSPs queried whether the existence of these conditions retain their relevancy given recent gains in consumer transparency of average evening busy hour speeds.

Given the role that these conditions have played in helping RSPs to ensure that customers obtain a consistent service experience, **nbn** continues to believe that minimum standards of CVC provisioning remain necessary. To contribute to lowering the cost of maintaining those minimum standards, and maximise the value RSPs receive from purchased discount bundles, **nbn** will introduce three changes to CVC management in May 2020:

- **nbn** will adopt a new national aggregate calculation method to determine the amount of CVC overage RSPs incur;
- **nbn** will increase the overage waiver threshold from 300Mbps to 1.5Gbps; and
- **nbn** will simplify the CVC utilisation conditions and breach consequences.

5.1 National overage calculation

Since the introduction of the bundle discounts, RSPs have been able to pool the CVC allocation included in the bundle discounts purchased within the same CSA. This practice has allowed RSPs to more efficiently utilise CVC capacity to serve customers with differing needs for included data.

Based on feedback from RSPs, **nbn** will extend this pooling mechanism to the national level from May 2020. This means that RSPs will be able to use the CVC capacity included as part of fixed-line or wireless discount bundles across all fixed-line and wireless CSAs.

This change will enable RSPs to make more efficient use of the CVC capacity included in bundle discounts and help to decrease RSP costs and improve busy-hour customer experience. Details of the calculation methodology will be provided in a future update to the **nbn** Discounts, Credits and Rebates List.

5.2 Increased overage waiver threshold

In order to assist with any scale issues on "bundled" CVCs during the migration of services to the bundle discounts, **nbn** introduced a 300Mbps overage waiver with the bundle discount construct launched in 2018. This overage waiver allows RSPs to configure up to 300Mbps of bundle CVC capacity per CSA without paying any overage charges, irrespective of how many bundled AVCs that RSP had ordered at the respective CSA.

To facilitate the introduction of the new higher speed product tiers and associated bundle discounts, **nbn** will increase the waiver threshold from 300Mbps to 1.5Gbps per CSA in May 2020.

Only the CVC inclusions and ordered CVC bandwidth for those CSAs that exceed the overage waiver threshold will be taken into account when calculating overage on a national basis. Thus, ordered CVC bandwidth below 1.5Gbps in a CSA cannot be used to offset overage under the nationally aggregated overage calculation discussed in section 5.1.

5.3 Simplifying CVC utilisation conditions

The current CVC utilisation conditions require that:

- no more than 15% of a retail service provider's CVC TC-4s exceed an average data throughput of 95% of the provisioned CIR (Mbps) for 7 hours in any 7-day period (measured on a rolling 7-day basis); and
- no more than 5% of a retail service provider's CVC TC-4s exceed an average data throughput of 95% of the provisioned CIR (Mbps) for 14 hours in any 7-day period (measured on a rolling 7-day basis).

nbn will simplify this to a single condition that is measured at a CVC level over an entire (monthly) billing period. The longer measurement period is intended to give RSPs more time to address any capacity issues. The new "bundled" CVC utilisation condition will require that:

- none of a retail service provider's "bundled" CVC TC-4s exceed an average data throughput of 95% of the provisioned CIR (Mbps) for more than 1 hour per day on average over a billing period.

5.4 Simplifying CVC utilisation breach consequences

To simplify the CVC utilisation breach consequences, **nbn** proposes that bundle discounts will, in future, only be removed from those CVCs in respect of which a breach occurred instead of from all CVCs. The new rules, which will apply in addition to other conditions in the Discounts, Credits and Rebates List, are:

- if an RSP breaches the CVC utilisation condition for any "bundled" CVCs in a billing period, **nbn** will, at the end of that billing period, notify the RSP that it has breached the CVC utilisation condition; and
- for the "bundled" CVCs that breached the condition, the RSP's "bundled" components will be invoiced at the recurring charges for those product components in the **nbn**™ Ethernet Price List without the application of any Discount, Credit or Rebate in the Discounts, Credits and Rebates (DCR) List.

6. Evolving non-recurring charges

6.1 Standardising AVC activation charges

Currently, **nbn** charges various fees when activating AVCs. Service transfers, where an active service is migrated between two RSPs, attracts a charge of $22.50, while AVC re-activation, where an inactive line is brought back into service, attracts a charge of $0 for most technologies.

nbn proposes to standardise these various activation charges as part of the WBA4 process during 2020. In the interim, **nbn** will temporarily discount service transfer fees from $22.50 to $5.00, effective from 29 November 2019 to 30 November 2020.

7. Balancing price stability and flexibility

7.1 Discount bundle charge and inclusion roadmap

Respondents to the first and second consultation papers held varied views on how often **nbn** should review the effective charges of its bundle discounts and CVC inclusions, as well as how much lead time they would prefer between the announcement of changes and the changes taking effect. Views on how often to review bundle discounts ranged from every six months to every two years, while views on lead time ranged from one month to three years.

Mindful of the industry's general requests on improving certainty, **nbn** will make the following changes to its discount review process:

- In future, **nbn** will conduct a review of bundle discounts and CVC inclusions on a yearly basis. As part of this review, **nbn** will give RSPs the opportunity to provide usage forecasts as an input to the annual CVC inclusion review.
- As part of each review, **nbn** will release a roadmap of charges for its bundle discounts and CVC inclusions extending two years, each year adding visibility of upcoming changes in the next year of the pricing schedule.

Table 2[3] shows the baseline roadmap of charges and inclusions for **nbn**'s discount bundles for the period to May 2021. Some bundle discounts, for which **nbn** proposes no changes to charge or CVC inclusion, are excluded from this table.

	Sep 19		Oct / Dec 19		May 20		Oct 20		May 21	
Discount bundle[4]	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)
ELB with usage below 0.15Mbps	$22.50	0.15	$22.50	0.15	$22.50	0.15	$22.50	0.15	$22.50	0.15
ELB with usage above 0.15Mbps[5]	$45.00	0.15	$28.20 (Oct)	0.15 (Oct)	$27.40	0.15	$26.60	0.15	$26.60	0.15
B25 on fixed-line and fixed wireless	$45	2	$37 (Dec)	1.25 (Dec)	$37	1.25	$37	1.25	$37	1.5
B50	$45	2	$45	2	$45	2.25	$45	2.25	$45	2.50
Wireless Plus	$45	2	$45	2	$45	2.25	$45	2.25	$45	2.50
Higher Speed Tier 1 (100/20)	-	-	-	-	$58	3.75	$58	3.75	$58	4.25
B100/40	$65	3	$65	3	$65	3.75	$65	3.75	$65	4.25

[3] References to "speeds" and "speed tiers" in this paper are not to speeds achievable by end-users, but to wholesale layer 2 peak information rate bandwidth provided to the RSP. The end user experience, including speeds actually achieved over the **nbn**™ access network, depend on the configuration over which services are delivered to a premises, whether the end user is using the service during the busy period, and some factors outside **nbn**'s control (like equipment quality, software, chosen broadband plan or how a service provider designs its network).

[4] Bundle discounts are subject to certain limitations and restrictions as set out in the Discount, Credit and Rebates List, and as set out in the Wholesale Broadband Agreement.

[5] The effective charges in this row rely on the RSP drawing on pooled CVC inclusions from other bundled AVCs to cater for all usage of CVC capacity by ELB AVCs above the 150Kbps inclusion.

	Sep 19		Oct / Dec 19		May 20		Oct 20		May 21	
Discount bundle[4]	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)
Higher Speed Tier 2 (250/25)	-	-	-	-	$68	4.75	$68	4.75	$68	5.25
B250/100	$100	3	$100	3	$100	3.25	$100	3.25	$100	3.5
B500/200	$130	3	$130	3	$130	3.25	$130	3.25	$130	3.5
Higher Speed Tier 3 (up to 1000/50)	-	-	-	-	$80	5.75	$80	5.75	$80	6.25

*Table 2 **nbn** discount bundle charge and inclusion roadmap 2020-2021*

8. Next Steps

If you have any questions about this consultation closure paper, or the feedback and outcomes, please contact your **nbn** Account Executive or email pdf@nbnco.com.au to request a meeting.