

# RMID1027 Pricing Review 2021 Consultation Paper 1

February 2021





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# 1 Consultation Purpose

The purpose of the 2021 Pricing Review consultation is to seek Retail Service Provider (RSP) and broader Industry feedback on **nbn** wholesale pricing for selected **nbn**<sup>™</sup> Ethernet bandwidth profiles, with the objectives of providing certainty, value and simplicity through ongoing and regular consultation on pricing.

The 2021 Consultation will consist of two rounds of industry feedback and a closure paper.

The scope of this Round 1 paper is divided into two parts:

- Part A is focused on extending the current pricing certainty by releasing a new 24-month Traffic Class 4 (TC-4) Bundles Discount Roadmap and will also review the SAU Price for TC-4 connectivity virtual circuit (CVC). These items are expected to conclude by the end of April 2021.
- Part B of this paper seeks Industry feedback on the medium and longer-term construct for **nbn**<sup>™</sup> Ethernet charges, including TC-1, TC-2, support for the low-income segment, optimisation of billing cycles and evolving **nbn**'s long term wholesale TC-4 pricing. This section considers how industry can meet the future challenges of growing bandwidth requirements in a commercially sustainable way. It builds on feedback from industry around the TC-4 CVC construct as provided through the 2017 and 2019 pricing consultation processes and the ACCC's recent *Inquiry into NBN access pricing* which forms the basis of these new discussions.

Part A is subject to one round of industry feedback and is expected to be finalised by the end of April 2021.

Round 2 of the consultation will provide **nbn**'s pricing proposals for Part B, informed by the feedback received in Round 1 and is expected to commence by mid Q2 2021.

The Round 2 paper will in turn be followed by a closure paper targeted for mid Q3 2021, integrating the responses received during the two rounds of feedback and forming the basis of the 2021 pricing update.

## 2 Background

This consultation follows significant enhancements to **nbn**'s wholesale pricing construct as a result of the 2017 and 2019 pricing consultations.

### Speed Tier Uplift

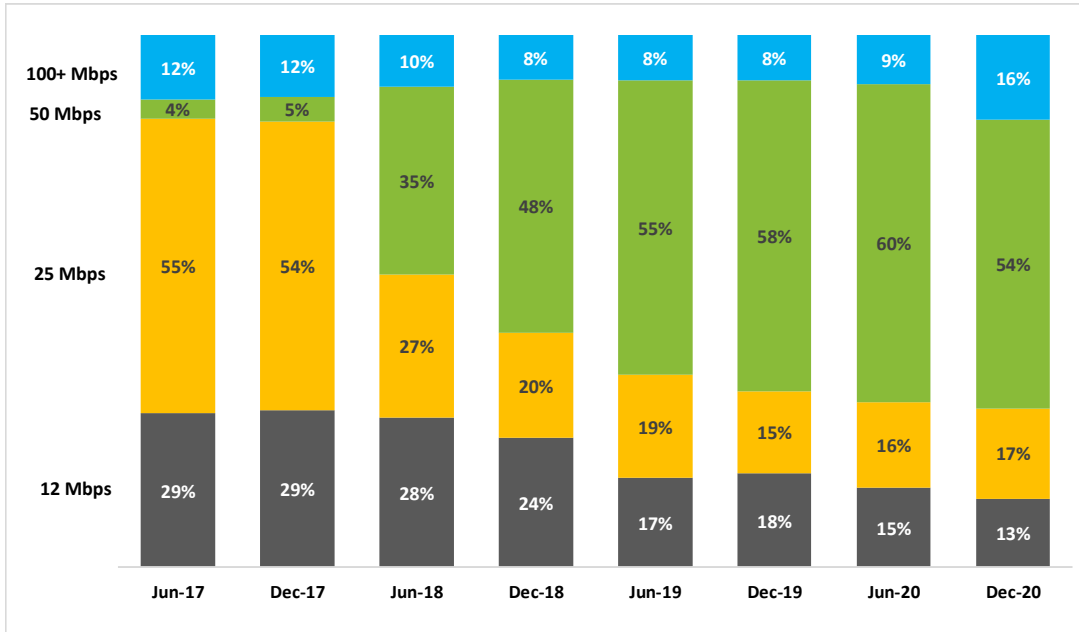
During the 2017 pricing consultation, **nbn** responded to high rates of usage growth associated with streaming video adoption by introducing the TC-4 Access Virtual Circuit (AVC) plus CVC wholesale Bundle Discounts. In the lead up to the launch of these Bundle Discounts, **nbn** launched its Focus on 50 pricing campaign which promoted the higher wholesale speeds capable on the network and incentivised RSPs to purchase greater CVC capacity which in turn reduced congestion.

Prior to the 2017 consultation, the majority of customers who connected to the **nbn** from their legacy ADSL connections did so on a retail service that used the 12/1Mbps or 25/5Mbps wholesale speed tier. By the end of



the 2017 consultation 84% of **nbn**<sup>TM</sup> Ethernet TC-4 services were on wholesale download speed tiers of 25Mbps<sup>1</sup> or below. Today, more than 70% of retail customers are served using a 50/20Mbps<sup>2</sup> or faster service and the average CVC congestion has substantially reduced.

**nbn<sup>TM</sup> Ethernet TC-4 Active Services Wholesale Speed Tier Mix, Historical<sup>3</sup>**



Source: nbn internal data

### Entry-Level Discounts

In order to support broader service adoption, **nbn** introduced the Entry Level Bundle (ELB) discount in 2018 to provide 12/1Mbps wholesale speed tier access at a discount to the Wholesale Broadband Agreement (WBA) list price<sup>4</sup>. This discount was modified in 2019 to better support a \$60 per month, retail product by significantly reducing the Additional Charge<sup>5</sup> from \$22.50 to \$5.70, with further reductions over time, for a total effective charge of as low as \$28.20 where average peak monthly usage across a CVC was greater than 0.15Mbps. To further assist with customers seeking a value offer, **nbn** expanded the CVC inclusion configurations available for

<sup>1</sup> **nbn** ethernet TC-4 AVC's supplied over certain networks such as the FTTB and FTTN networks have ranged speed tiers (e.g. 25-50, 25-100). References to speeds in this document are to layer 2 wholesale peak speeds not end customer speeds. End customer experience, including the speeds actually achieved over the **nbn**<sup>TM</sup> broadband access network, depends on the **nbn**<sup>TM</sup> access network technology and configuration over which services are delivered to their premises, whether they are using the internet during the busy period, and some factors outside of **nbn**'s control (like their equipment quality, software, chosen broadband plan, signal reception, or how their provider designs its network). See the Wholesale Broadband Agreement for detail of **nbn**'s wholesale speed performance obligations and limitations.

<sup>2</sup> '50/20Mbps wholesale speed plan' includes wholesale plans available to phone and internet providers with speeds of 50/20Mbps and Fixed Wireless Plus (25-75/5-10Mbps).

<sup>3</sup> Refer to notes 1 and 2 for more information on references to speed and **nbn** wholesale speed tier numbers.

<sup>4</sup> The WBA is an access agreement between RSPs and **nbn**.

<sup>5</sup> The ELB is comprised of two fixed charges, being the bundle discount effective price of \$22.50 and an Additional Charge, originally also at \$22.50 that was triggered when the average monthly peak usage of ELB AVCs on a CVC was in excess of 0.15Mbps. When the Additional Charge is payable, the ELB AVC must be using pooled CVC capacity from other services or the RSP must pay Overage for additional CVC capacity



the bundle discount for the 25/5Mbps wholesale speed tier in November 2019, allowing RSPs greater flexibility to provide value to Customers.

In October 2020, the wholesale effective charge for the 12/1 Mbps wholesale speed tier 'modified Entry Level Bundle' was reduced to \$26.60, followed by a reduction under WBA4 in December 2020 to \$24.70. A final reduction to \$22.50 is planned in May 2021 which will bring the Additional Charge to \$0.

### **New High Speed Tiers**

The release of a TC-4 Bundles Discount Roadmap as part of the Pricing Consultation Closure Paper in November 2019 confirmed **nbn**'s plans to introduce the new residentially focussed High Speed Tiers launched as Home Fast, Home Superfast, and Home Ultrafast in May 2020, which provided greater options for customers seeking 100Mbps or greater wholesale downlink capability. The roadmap in the Closure Paper also provided for CVC inclusion increases as part of the Bundle Discounts for all listed AVC TC-4 bandwidth profiles above the 12/1 Mbps wholesale bandwidth profile at the same effective wholesale price for the period from May 2021 to April 2022.

Further to these changes, **nbn** responded to RSP feedback on overage and CVC utilisation by instating national pooling of CVC, which reduced the volume of billed CVC, and by increasing the Overage Waiver Threshold from 300Mbps to 1.5Gbps to encourage higher wholesale speeds. To help provide a consistently good customer experience the CVC utilisation conditions were simplified and the Overhead Allowance for AVC downlink speeds was introduced.

### **Response to COVID-19**

By early 2020, Australia and the world were deep in the COVID-19 pandemic with lockdown restrictions changing the way Australians went about their daily activities and driving a significant increase in internet usage for work, education, social connection and entertainment.

Recognising the unanticipated burden that this surge in usage would create for industry and the possible customer impact, **nbn** put together an industry relief package and launched initiatives including the following:

- **COVID CVC Boost:** enabling RSPs to order substantially more CVC bandwidth on the network at no additional cost, supporting the 5.4%<sup>6</sup> increase in Australia's average internet service speed compared to a global decline of 6.3%. This includes a tapering of the credit to January 2021 to enable a smooth transition for industry.
- **Up to \$150m in relief funds:** to assist RSPs in supporting low-income households with home schooling needs, emergency and essential services, and small and medium businesses and residential customers who were facing financial hardship.
- **Satellite services support:** doubling the average data download limits on **nbn**<sup>TM</sup> Ethernet Sky Muster satellite services.

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<sup>6</sup> Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons Attribution CC BY standard.



## Focus on Fast

In October 2020, **nbn** announced a campaign to help RSPs move from **nbn**'s temporary COVID-19 support to a more sustainable operation, which featured new incentives for RSPs to sell higher speed broadband plans to customers who would benefit from improved performance. This was delivered in two parts:

- **Bringing forward of CVC inclusion increases<sup>7</sup>**: CVC Inclusion increases for Home Fast, B100/40<sup>8</sup>, Home Superfast and Home Ultrafast were brought forward from 1 May 2021 to 1 Dec 2020;
- **Focus on Fast Rebates**: Incentive launched on 1 February 2021 for upselling existing customer base or new services or service transfers to wholesale High Speed Tiers and other specified wholesale speed tiers on fixed line access technologies and to Fixed Wireless Plus on the fixed wireless access technology.

## WBA4

Through 2020 **nbn** engaged closely with Industry to formulate and reach agreement on the fourth iteration of the Wholesale Broadband Agreement (WBA4). At the same time the ACCC was conducting an Inquiry into NBN access pricing (Price Inquiry) which further deepened the dialogue between **nbn** and Industry.

The WBA4, effective from 1 December 2020 for two years, included a package of commitments including the maintenance of the TC-4 Bundles Discount Roadmap, setting constraints for future discounting changes and a reduction in the effective wholesale charge of the modified Entry Level Bundle discount. These commitments aim to provide greater price certainty for RSPs and continuity of wholesale charges that support an ADSL equivalent retail price for an entry level service on the TC-4 Bundles Discount Roadmap.

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<sup>7</sup> The 0.5Mbps CVC inclusion increase for the selected wholesale speed tiers stated in the TC-4 Bundle Discount Roadmap to apply from 1 May 2021 were applied as a manual credit of \$4 per billing period, an equivalent monetary value, prorated over the billing cycle.

<sup>8</sup> '100/40Mbps wholesale speed plan' includes wholesale plans available to phone and internet providers with speeds of 100/40Mbps, 50-100/20-40Mbps and 25-100/5-40Mbps.



## Part-A: Extending current pricing certainty

The conclusion of the ACCC Price Inquiry, together with the inclusion of the TC-4 Bundles discounts in WBA4 with their associated commitments, has provided industry more certainty with regards to TC-4 pricing. The feedback that **nbn** receives as part of this consultation will provide guidance on extending this certainty for 24 months to 30 April 2023. This section (Part A) is subject to one round of industry feedback and is estimated to be finalised by the end of April 2021.

### 3 WBA4 TC-4 Bundles Discount Roadmap

An outcome of the 2019 pricing consultation was the development of a forward-looking roadmap of discounted charges and CVC inclusions, effective from 1 May 2020, to provide increased pricing certainty for RSPs. This was included in WBA4 as the TC-4 Bundles Discount Roadmap commitment, effective from 1 December 2020, providing additional certainty through commitments to the effect that the published roadmap represents:

- The maximum charge per Mbps of CVC coverage;
- The maximum charges for each speed tier bundle;
- The minimum CVC inclusions for each speed tier bundle; and
- Maintaining the ELB for the period of WBA4.

In this section, **nbn** is seeking Industry feedback to inform the review of the TC-4 Bundles Discount Roadmap to publish a new 24 month Roadmap covering the period from May 2021 to April 2023 including, for the first time, commitments for the period from May 2022 to April 2023<sup>9</sup>. Part B, Section 5 seeks feedback on future pricing constructs.

#### 3.1 Residential TC-4 Wholesale Speed Tiers

Since the last pricing consultation Australians have spent more time at home as a result of COVID-19 and total Gigabyte (GB) usage on the **nbn** network grew by 32% between Nov-19 to Dec-20. However, during the same period the average Mbps of peak CVC utilised has only grown 24%. Increased working from home, education, and home entertainment has grown the data being used outside of the typical evening peak hour, meaning that growth in peak CVC utilisation (which is the basis for provisioned CVC which is billed) has been lower than growth in overall data use. The result is that the headline usage figures may not fully translate into increased billable CVC charges. See Appendix A for further detail.

The CVC inclusions originally planned for 1 May 2021 for Home Fast, B100/40, Home Superfast, and Home Ultrafast were brought forward to 1 December 2020, via agreement with RSPs. The Focus on Fast campaign, effective from 1 February 2021, helps enable RSPs to drive take up of faster wholesale speeds and access greater CVC inclusions at a further discounted wholesale effective charge for a period of 6 months. **nbn**'s successful efforts to encourage the take-up of higher speed tiers typically provides RSPs with increased cost certainty due to the much higher CVC inclusions. Customers have the benefit of greater accessibility and affordability of these services through Focus on Fast, which may improve their service experience depending on their use case.

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<sup>9</sup> WBA4 is in effect until 30 November 2022.





On 1 May 2021 **nbn** will also provide an additional 0.25Mbps of CVC inclusion for the B25, B50, and Wireless Plus, and the ELB Additional Charge will be reduced to \$0 (see table 1).

With respect to the period from 1 May 2022 **nbn** is providing two proposals suited to different levels of usage for feedback. While the B250/100, B500/200, and B1000/400<sup>10</sup> remain part of the WBA4 TC-4 Bundle Discount and Roadmap, changes to these business-focused wholesale high speed tiers are addressed in section 3.2. The table below sets out the maximum effective recurring Charges and the minimum CVC Inclusion capacity that will apply for each set of Bundled Components.

- Option 1 provides additional CVC inclusions with no increase in the bundle discount effective price for most wholesale speed tiers. This is expected to help retailers maintain a satisfactory standard of service for the average customer based on the average speed tier mix. RSPs are able to achieve a higher average CVC inclusion, if desired, by assisting new or existing customers who might benefit from a higher speed tier to upgrade.
- Option 2 provides up to \$2.80 of additional CVC inclusions (based on the \$8/Mbps charge), on top of Option 1, for an increase of \$2 to the bundle discount effective charge for the B50Mbps and above. This is effectively a 17% to 29% discount for the additional CVC inclusions. The inclusion of additional CVC at discounted rates provides additional commercial certainty in the event of future usage being greater than expected.

	WBA4 Start Date to 30 April 2021		1 May 2021 to 30 April 2022		Proposed Option 1: 1 May 2022 to 30 April 2023		Proposed Option 2: 1 May 2022 to 30 April 2023	
TC-4 Bundles Discount <small>Error! Bookmark not defined.<sup>11</sup></small>	Effective Charge	CVC Inclusion (Mbps)	Effective Charge	CVC Inclusion (Mbps)	Effective Charge	CVC Inclusion (Mbps)	Effective Charge	CVC Inclusion (Mbps)
ELB with usage below 0.15Mbps	\$22.50	0.15	\$22.50	0.15	\$22.50	0.15	\$22.50	0.15
ELB with usage above 0.15Mbps <sup>12</sup>	\$24.70 <sup>13</sup>	0.15	\$22.50 <sup>14</sup>	0.15	\$22.50	0.15	\$22.50	0.15
B12 on fixed wireless	\$45	2	\$45	2	\$45	2	\$45	2

<sup>10</sup> Regardless of the retail service you purchase, the actual wholesale speeds delivered by nbn’s highest wholesale speed tiers of 500 to close to 1000 Mbps will be less than 1Gbps due to equipment and network limitations and the peak information rate may fall anywhere in this range. In addition, the HFC Home Ultrafast bandwidth profile downstream service provided to retail providers is a ranged profile with a maximum sustained information rate of 750Mbps. Reference to speeds are not end user speeds; they are wholesale layer 2 peak information rate bandwidth provided to retail providers. An end customer’s experience, including the speeds actually achieved over the nbn network, depends on some factors outside our control (like equipment quality, software, and how your retail service provider designs its network) and the nbn technology used for your connection.

<sup>11</sup> Bundle discounts are subject to certain limitations and restrictions as set out in the Wholesale Broadband Agreement.

<sup>12</sup> The effective charges in this row rely on the RSP drawing on pooled CVC inclusions from other Bundled AVC TC-4s to cater for all usage of CVC capacity by Entry Level AVCs above the 150Kbps CVC inclusion.

<sup>13</sup> The effective charge shown here includes the ELB Additional Amount of \$2.20 for each Entry Level AVC, which applies if average peak monthly use of Entry Level AVCs on a CVC exceeds the 0.15 Mbps ELB CVC Inclusion across a Billing Period.

<sup>14</sup> The effective charge shown here, and in subsequent columns on this row, includes an ELB Additional Amount of \$0.00 for each Entry Level AVC, which applies if average peak monthly use of Entry Level AVCs on a CVC exceeds the 0.15 Mbps ELB CVC Inclusion across a Billing Period.



	WBA4 Start Date to 30 April 2021		1 May 2021 to 30 April 2022		Proposed Option 1: 1 May 2022 to 30 April 2023		Proposed Option 2: 1 May 2022 to 30 April 2023	
B25 <sup>15</sup> on fixed-line and fixed wireless	\$37	1.25	\$37	1.5	\$37	1.6	\$37	1.6
B50 <sup>16</sup>	\$45	2.25	\$45	2.50	\$45	2.65	\$47	2.95
Wireless Plus	\$45	2.25	\$45	2.50	\$45	2.65	\$47	2.95
Home Fast (100/20) <sup>17</sup>	\$58	3.75	\$58	4.25 <sup>18</sup>	\$58	4.5	\$60	4.85
B100/40 <sup>19</sup>	\$65	3.75	\$65	4.25 <sup>18</sup>	\$65	4.5	\$67	4.85
Home Superfast (250/25)	\$68	4.75	\$68	5.25 <sup>18</sup>	\$68	5.5	\$70	5.85
B250/100	\$100	3.25	\$100	3.5	\$100	5.5	\$100	5.5
B500/200	\$130	3.25	\$130	3.5	\$160	6	\$160	6
Home Ultrafast (up to ~1000/50) <sup>20</sup>	\$80	5.75	\$80	6.25 <sup>18</sup>	\$80	6.75	\$82	7.1
B1000/400 <sup>20</sup>	\$180	3.25	\$180	3.25	\$230	6.75	\$230	6.75

**Table 1 Proposed effective charges and CVC inclusions for the WBA4 TC-4 Bundles Discount Roadmap for the period from WBA4 Start Date to 30 April 2023**

**Question 3.1.1:** What data usage (Mbps) and speed tier mix (%) is your organisation forecasting for the period between May 2021 and April 2023 and how does this compare to historical rates?

**Question 3.1.2** What is your organisation’s preference considering the above options for the May 2022 to April 2023 roadmap and why?

<sup>15</sup> B25 includes the 25/5Mbps, 25/5-10Mbps and 25/10Mbps AVC TC-4 bandwidth profiles.

<sup>16</sup> B50 includes the 25-50/5-20Mbps and 50/20Mbps AVC TC-4 bandwidth profiles.

<sup>17</sup> Home Fast includes the 25-100/5-20, 50-100/20 and 100/20Mbps AVC TC-4 bandwidth profiles, depending on technology used.

<sup>18</sup> The 0.5Mbps increase in CVC inclusion for May 2021 was made effective from 1 December 2020 for Home Fast, B100/40, Home Superfast, and Home Ultrafast.

<sup>19</sup> B100/40 includes the 25-100/5-40, 50-100/20-40 and 100/40Mbps AVC TC-4 bandwidth profiles, depending on technology used.

<sup>20</sup> Regardless of the retail service you purchase, the actual wholesale speeds delivered by nbn’s highest wholesale speed tiers of 500 to close to 1000 Mbps will be less than 1Gbps due to equipment and network limitations and the peak information rate may fall anywhere in this range. In addition, the HFC Home Ultrafast bandwidth profile downstream service provided to retail providers is a ranged profile with a maximum sustained information rate of 750Mbps. Reference to speeds are not end user speeds; they are wholesale layer 2 peak information rate bandwidth provided to retail providers. An end customer’s experience, including the speeds actually achieved over the nbn network, depends on some factors outside our control (like equipment quality, software, and how your retail service provider designs its network) and the nbn technology used for your connection.



### 3.1.1 Overage Amount

Table 2 below sets out the maximum Overage Amount that will apply in respect of CVC TC-4 bandwidth capacity. **nbn** proposes no change to this amount for the period 1 May 2022 to 30 April 2023.

	WBA4 Start Date to 30 April 2023
Overage Amount (per Mbps)	\$8.00

**Table 2 Proposed overage Amount for the period from WBA4 Start Date to 30 April 2023**

## 3.2 Business TC-4 Wholesale Speed Tiers

The original wholesale high-speed tiers of 250/100Mbps, 500/200Mbps and close to 1000/400Mbps<sup>21</sup> have largely been replaced in the residential setting with the lower priced and more asymmetrical speed tiers of Home Superfast and Home Ultrafast. Given their greater uplink capacity, these original high-speed tiers are generally better suited to addressing certain businesses segments and providing improved ‘business grade’ customer experience. To enhance their business application, **nbn** is seeking Industry feedback on a proposal to establish these tiers as Business Bundles to which the TC-4 Business Bundles Discount applies with eSLAs included, as per below:

	1 May 2022 to 30 April 2023	
Business Bundles <sup>22</sup>	Effective Charge	CVC Inclusion (Mbps)
B250/100	\$100	5.5 eSLA 12 (24/7)
B500/200	\$160	6.0 eSLA 12 (24/7)
B1000/400	\$230	6.75 eSLA 12 (24/7)

**Table 3 Proposed new Business Bundles with effective charges, CVC inclusions, and eSLA**

<sup>21</sup> Regardless of the retail service you purchase, the actual wholesale speeds delivered by **nbn**’s highest wholesale speed tiers of close to 1000 Mbps will be less than 1Gbps due to equipment and network limitations.

<sup>22</sup> References to speeds in this document are to layer 2 wholesale peak speeds not end Customer speeds. The end customer’s experience, including the speeds actually achieved over the **nbn**™ network, depends on some factors outside our control (like your equipment quality, software, and how your service provider designs its network). See your WBA for more details on **nbn**’s commitments re speed and associated limitations.



**Question 3.2.1:** In your organisation’s view, how do the Business TC-4 high speed tiers complement your retail product portfolio and which market segments are they most effective in addressing?

**Question 3.2.2:** In your organisation’s view, which product inclusions (e.g. TC1, TC2, CVC or eSLA) or customer experience attributes (e.g. business grade installation, service restoration) would be most effective in accelerating the take-up of these services?

## 4 Basic CVC Price

In order to support RSPs in Connectivity Serving Areas (CSAs) with less than 30,000 Serviceable premises, **nbn** has historically provided a Transitional Pricing Credit for the first 150Mbps of CVC TC-4 in a CSA with less than 30,000 serviceable premises. In November 2019 all CSAs became non-transitional and the credit ceased with a cumulative total of \$225m rebates passed on to RSPs. Pursuant to the SAU, **nbn** will now perform annual reviews of the CVC TC-4 list price<sup>23</sup>.

An internal review of the CVC TC-4 List Price was conducted in 2020. Following this current review, **nbn** proposes to decrease the CVC TC-4 list price by 10%, to \$15.75 per Mbps per month by 31 March 2022. **nbn** believes this fairly represents a balance between reducing the gap to the \$8 per Mbps Overage charge under the Bundle Discounts and the fact that the majority of Basic services are Satellite for which the Bundle Discounts does not apply. This position is informed by a range of factors, specifically:

- the number of fixed line services incurring the CVC TC-4 List Price is relatively low (less than 4,000 as at Jan21) with the overwhelming majority of TC-4 services being supplied under bundle discounts;
- the majority of services incurring the CVC TC-4 List Price are SkyMuster™ services (more than 95,000 or 96% as at Jan-21);
- the TC-4 bundles discounts do not apply to satellite services, as these services are loss-making and heavily subsidised by fixed line services;
- SkyMuster™ Plus provides an alternative satellite service designed for those RSPs and customers seeking an option with greater cost certainty; and,
- **nbn** has implemented a range of pricing initiatives to reduce RSP costs, particularly in respect of CVC capacity, including in the context of WBA4 development, the ACCC’s Pricing Inquiry and **nbn**’s response to COVID-19.

This paper seeks the following input from RSPs.

**Question 4.1:** How would reducing the CVC TC-4 List Price to \$15.75/Mbps impact the relative cost and take-up of “basic” and “bundle” services for your organisation and will this change affect your pricing, promotion and supply of those services and how will that in turn affect the end users of those services?

<sup>23</sup> See clause 1C.4.3 of the SAU, which requires **nbn** to review CVC TC-4 prices after a transitional period.



## Part-B: Providing longer-term certainty, value and further simplicity

During the last pricing consultation, three common themes emerged from the collected responses – the desire for greater Certainty, Value, and Simplicity. We have used these themes to table opportunities for industry feedback and further optimisation of **nbn**'s pricing construct.

This section (Part B) is subject to two rounds of industry feedback. The second round paper, expected in mid Q2 2021, will provide **nbn**'s proposals informed by the feedback received in response to this paper and a closure paper is expected to be finalised by mid Q3 2021.

### 5 Longer-term certainty

Industry is currently operating under WBA4, effective from 1 December 2020 to 30 November 2022. WBA4 includes a package of commitments made by **nbn** designed to provide RSPs with greater pricing certainty, including maintaining the TC-4 Bundles Discount Roadmap as outlined in Part A of this paper. Beyond November 2022, **nbn** is actively seeking to evolve its wholesale TC-4 pricing construct, building on feedback received through prior pricing consultations and broader Industry engagement.

This section seeks to explore how **nbn** could change the TC-4 pricing construct to address industry concerns and provide greater value for customers while managing **nbn** commercial obligations. In particular, **nbn** initially seeks to establish with RSPs the core objectives and guiding principles that a future pricing construct would need to achieve, including:

- Improving accessibility and affordability of broadband for Australian customers.
- Enabling long term financial sustainability of Industry.
- Providing greater wholesale price and cost certainty to RSPs.
- Maintaining **nbn**'s ability to earn a reasonable return on its investment to enable continued investment in broadband availability, performance and reliability (through ensuring sustainable ARPU and volume).

While some RSPs have specifically raised their concerns with CVC, particularly in an environment of high usage growth, and expressed a desire to move to AVC only pricing, a number of considerations need to be balanced:

- In principle, any reduction to **nbn**'s variable (CVC) charge would require a corresponding increase in the contribution of its fixed (AVC/bundle) charge to maintain **nbn**'s ability to meet its financial obligations and reinvest in the network to provide higher speeds and greater network capacity to more of Australia.
- CVC charges enable RSPs to offer entry level plans with capped data rates (e.g. monthly data allowance) by actively managing their CVC cost exposure and enabling lower retail price points. Reduction or removal of CVC will likely see these plans being phased out, negatively impacting budget customers.
- CVC is seen as a key retail differentiator by some RSPs in the industry.
- CVC provides a pathway for **nbn** to recover the incremental cost of data usage, such as network upgrades and augmentation. In the absence of CVC, **nbn** would require an alternative means of cost recovery.



**Question 5.1:** What changes, if any, would your organisation propose to the pricing construct and price levels to address the core objectives and guiding principles above, balancing improved outcomes for Australian consumers and RSPs with an expected net neutral commercial outcome for **nbn** in FY24?

**Question 5.2:** How does your organisation see the preferred construct, in your response to question 5.1, and price level evolving over time?

Currently, some RSPs offer entry-level plans primarily using **nbn**'s 12/1Mbps wholesale speed tier<sup>24</sup>, at a retail price of typically \$60 per month (incl. GST) or less. For a data capped retail plan, an RSP can closely manage the CVC usage and thereby limit their wholesale cost to not much more than the fixed access charge, enabling them to offer a low-cost retail plan. In addition, CVC inclusions on higher speed tiers can also be used to support entry level customers at no added cost. A pricing construct that reduces the variable charge by rebalancing to the fixed charge diminishes these pricing dynamics.

**Question 5.3:** What impacts would a pricing construct with higher fixed and lower variable charges have on data capped plans, high speed plans (Home Fast, Superfast, Ultrafast), and the overall supply of **nbn** based retail services to as many customer segments as possible?

In late 2020, **nbn** and the Government jointly announced investment plans to upgrade the network to enable up to 75% of the fixed-line network to access **nbn**'s fastest wholesale speed tiers on demand by 2023.

To support the take-up of higher speed tiers, CVC inclusions on selected 100Mbps and above tiers were increased in December 2020. In addition, the recently launched Focus on Fast campaign provides additional support to encourage upsell to these speed tiers for customers who would benefit from them.

The potential future consumer trends point to streaming entertainment continuing to grow as ultra-high definition (4K and 8K) become more readily available, gaming continuing to move to cloud based enablement, augmented and virtual reality becoming more commonplace, and home office and home education solutions continuing to proliferate.

**Question 5.4:** What speed tier mix and data growth would your organisation expect by the end of FY24 based on the wholesale pricing construct in your response to question 5.1, and what is the likely driver of these changes and impact on customers?

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<sup>24</sup> References to speeds in this document are to layer 2 wholesale peak speeds not end Customer speeds. The end customer's experience, including the speeds actually achieved over the **nbn**<sup>TM</sup> network, depends on some factors outside our control (like your equipment quality, software, and how your service provider designs its network). See your WBA for more details on **nbn**'s commitments re speed and associated limitations.



## 6 Low-income offering (incl. Older Australians)

Since the 2019 pricing consultation, **nbn** has held Connecting Older Australians co-design workshops with interested RSPs and industry participants, identifying three key barriers to connection, being affordability, accessibility, and digital ability. Of the three, **nbn** is most able to influence affordability through the wholesale effective charge.

Further to the workshops **nbn** launched the Education Assistance Package for low income families with school-aged children who did not have an **nbn** broadband service as part of the COVID-19 relief package in 2020. This activity provided additional learnings to inform a longer-term low-income offering that would also include older Australians. In parallel, **nbn** commissioned market research with the goal of creating a commercially sustainable low-income offering for both **nbn** and RSPs.

**nbn** remains committed to its Connecting Older Australians program, as well as creating a low-income offering to build capability that can support multiple low-income cohorts. **nbn** intends to follow a 2-step pricing and product consultation to further assess a potential long-term low-income offering. In this pricing consultation we are seeking RSP feedback on the commercial components that are outlined below. The feedback will be a key input into a planned product consultation targeted for Q2 2021, which will explore the model in more detail including product development.

A key challenge that **nbn** identified from previous consultation, co-design workshops, and market research is how to construct a low-income offering that provides adequate benefits to the target segments in a commercially sustainable way for **nbn** and RSPs. The non-price attributes identified that may be relevant to a commercially viable low-income offering include:

- **Product construct:**
  - **Connected status:** limiting the offer only to premises that have either never been connected to the **nbn** or have been disconnected from the **nbn** for a period of time (e.g. 3 months), would reduce the incentive for end users downgrading existing services
  - **Data caps:** our market research found that data caps (e.g. 150GB/mth) would limit the appeal of a low-income offering for those customers currently on unlimited plans but provide sufficient data for basic connectivity
  - **Speed tier:** the low-income offering could be limited to the 12/1 and/or 25/5 wholesale speed tiers<sup>25</sup>.
- **Eligibility rules:**
  - **Recipient of a concession or benefit:** Centrelink offers an electronic service – Centrelink Confirmation eServices<sup>26</sup> (CCeS) for businesses, which can be used to confirm a customer’s eligibility for a concession or rebate provided by that business. **nbn** would be interested in hearing RSP’s views on the potential use of this system as a tool to confirm the eligibility of low-income groups. For example, Senior Australians on Age Pension, families on income support, etc

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<sup>25</sup> References to speeds in this document are to layer 2 wholesale peak speeds not end Customer speeds. The end customer’s experience, including the speeds actually achieved over the **nbn**™ network, depends on some factors outside our control (like your equipment quality, software, and how your service provider designs its network). See your WBA for more details on **nbn**’s commitments re speed and associated limitations.

<sup>26</sup> Centrelink Confirmation eServices (CCeS) for businesses – <https://www.servicesaustralia.gov.au/organisations/business/services/centrelink/centrelink-confirmation-eservices-cces-businesses>



- o **Eligible LOCID list:** working with trusted 3<sup>rd</sup> part organisations, **nbn** could nominate a list of LOCIDs that are eligible for a low-income offering. For example, state housing authorities and/or education bodies

**nbn** is seeking ideas and feedback from RSPs and industry on what the low-income offering should include. A potential construct as a starting point for discussion is as follows:

	Proposed
Desired maximum retail price range	\$40-\$50 <sup>27</sup>
nbn wholesale price range	\$18-\$22.50
Wholesale speed tier	25/5 Mbps <sup>28</sup>
Retail data allowance	150GB/mth data cap
Eligibility 1	Never connected and unconnected premises only (>3 months )
Eligibility 2	Based on specific Centrelink benefits (e.g. Age Pension) <sup>29</sup>

**Question 6.1:** What does your organisation propose as a commercially viable low-income construct?

**Question 6.2:** What barriers does your organisation currently face in offering a long-term retail low income offer (including required margin), and which low-income segments (e.g. Age Pensioners, families on income support), if any, would your organisation seek to focus these constructs for?

## 7 Simplicity

**nbn** currently offers RSPs the selection of one of three available billing calendar days under the WBA, subject to availability. **nbn** believes that moving to a single calendar month aligned billing option would be consistent with the objective of greater simplicity.

Further, to serve business end users, **nbn** offers a range of traffic-class options, from best-effort to committed-rate, across both **nbn**<sup>TM</sup> Ethernet and **nbn**<sup>TM</sup> Enterprise Ethernet. Additionally, **nbn** recently launched Business Fibre Zones, which provide \$0 fibre build for Enterprise Ethernet Network connections and service pricing for **nbn**<sup>TM</sup> Enterprise Ethernet based on the CBD zone. As part of this initiative, the locations with access to CBD zone

<sup>27</sup> Inclusive of GST

<sup>28</sup> See above note.

<sup>29</sup> Department of Social Services Demographic data - [data.gov.au/data/dataset/dss-payment-demographic-data/resource/c91d7ee0-59e0-4fc9-92a9-066b840d1139](https://data.gov.au/data/dataset/dss-payment-demographic-data/resource/c91d7ee0-59e0-4fc9-92a9-066b840d1139)





pricing have been significantly expanded. **nbn**, through this consultation, is seeking RSPs' feedback on further simplifying and optimising Business offers.

## 7.1 Billing

In order to provide choice for RSPs, **nbn** currently offers three different billing cycles. However, feedback from RSP Onboarding and the Ease of Doing Business Surveys indicates some RSPs would prefer a single calendar month billing cycle commencing on the 1<sup>st</sup> of each month. **nbn** believes that moving to calendar month billing for all RSPs will:

- Simplify **nbn** product and service offerings
- Provide clear and consistent implementation of price changes
- Improve speed to market of price change implementation

**Question 7.1.1:** Would your organisation prefer a single calendar month aligned billing period?

**Question 7.1.2:** If so, what challenges does your organisation expect to face and what length of time would your organisation require to move to a new billing period?

## 7.2 TC-1

**nbn** currently has fewer than 100 services on TC-1 2Mbps and TC-1 5Mbps, despite these wholesale speed tiers being in market for many years. **nbn** is reviewing its TC-1 product stack and would like to simplify it by withdrawing these under-utilised bandwidth profiles and in turn reduce the amount of time required for testing needed to support future product enhancements. The TC-2 5/5Mbps provides an alternative solution that can accommodate most use cases for these underused tiers at a lower price point and hence we expect that these tiers could be withdrawn with limited customer impact. We are seeking feedback from RSPs on the proposal to withdraw these wholesale speed tiers from market. If, following this feedback, **nbn** elects to seek the withdrawal of these products, this would be done in accordance with the processes that apply under the SAU and WBA4.

**Question 7.2.1:** What, if any, would be the impacts, now or in the future, of withdrawing the 2Mbps and 5Mbps TC-1 speed tiers and is the TC-2 5/5Mbps a suitable alternative?

## 7.3 TC-2

**nbn** is seeking industry feedback on customer preference for TC-2 symmetrical committed rate services versus alternatives, including high speed symmetrical, low class of service **nbn**<sup>TM</sup> Enterprise Ethernet, and high speed asymmetrical **nbn**<sup>TM</sup> Ethernet TC-4. The recently announced network investment plan will expand the availability of high speed TC-4 which appears to compete with TC-2 bandwidths of 20/20Mbps and below, while Business Fibre Zones will make **nbn**<sup>TM</sup> Enterprise Ethernet available at CBD zone prices to significantly more businesses, which is expected to reduce demand for TC-2 bandwidths of 50/50Mbps and above.



**Question 7.3.1:** Compared to high speed TC-4, what additional value does your organisation see in low speed (20/20Mbps and below) TC-2 symmetrical committed services over the next 3-5 years and to what extent will these services be delivered over contended networks using SD-WAN?

**Question 7.3.2:** With respect to TC-2 50/50Mbps and above services what additional value does your organisation see compared with similarly price **nbn**<sup>™</sup> Enterprise Ethernet services?

## 8 Next Steps

**nbn** invites written submissions from PDF participants by close of business Wednesday 24th March 2021. The PDF Web Tool private workspace provides a tool to securely share written submissions with **nbn**.

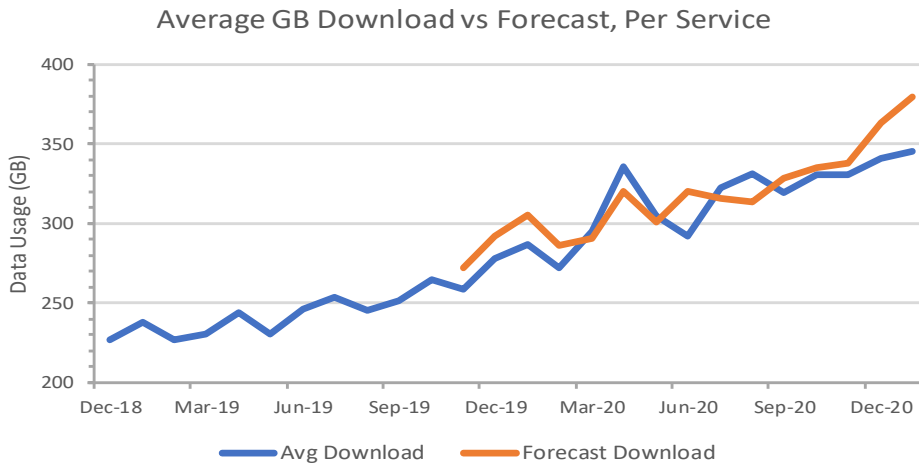
In parallel with this consultation, **nbn** welcomes the opportunity to meet with PDF participants individually, to discuss your submission in more detail and obtain feedback. If you would prefer to provide verbal feedback rather than make a written submission, please email [pdf@nbnco.com.au](mailto:pdf@nbnco.com.au) or contact your **nbn** account manager to request a meeting.

Subject to any PDF participant confidentiality requests, **nbn** intends to make a summary of the general themes from submissions and verbal feedback available to all PDF participants in due course. This is expected to be as part of a subsequent consultation paper to seek feedback from PDF participants on a proposed way forward.



## Appendix A Data Usage and CVC Charging

During the height of the COVID-19 pandemic (March to June 2020, and for Victoria up to Oct 2020) **nbn** saw a significant change in the day to day behavioural patterns of ordinary Australians which resulted in a sharp increase in home broadband service use. The chart below shows the observed average monthly downloaded GB per active service (blue), compared to **nbn**'s forecast as at November 2019 (orange) when the initial TC-4 Bundles Discount Roadmap was published. The impact of COVID-19 is clear in the March to June 2020 spike however, since September 2020 the average monthly downloaded gigabytes (GB) per active service has stayed under the level forecast in 2019.



While GB usage captures the total download throughput, **nbn** charges for the CVC that an RSP provisions and provisioning is typically driven by the peak megabits per second (Mbps) in a day. Typically, this peak usage period is in the evening where streaming video represents 54% of download throughput, possibly driven by increased speeds enabled by the delivery and performance of the **nbn**. The chart below shows the measured average utilised Mbps per active service compared to **nbn**'s forecast as at November 2019. It illustrates the smoother trajectory of peak evening usage compared to the total network throughput of the average monthly downloaded GB chart above. It also shows that from September 2020 the actual utilisation is in line with the forecast and falls below in December 2020.

