

RMID1027 Pricing Review 2021 Consultation Closure Paper

September 2021





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1 Introduction

This paper concludes the Pricing Review 2021 that opened with the first paper published on 15 February 2021 (Paper 1). The consultation covered a range of topics across short and long term **nbn** wholesale pricing. The TC-4 Bundles Discount Roadmap and TC-4 CVC List Price were closed in the second paper published on 28 April 2021 (Paper 2). The Longer-Term Pricing and Low Income aspects were moved to the current Special Access Undertaking (SAU) variation process and is captured in the SAU Discussion Paper released on 7 June 2021 as well as through the ACCC convened roundtable and workshops with the Industry.

This paper addresses the remaining items covered in Paper 2, namely the Soft Cap for TC-4 Bundle Discounts, Billing and TC-4 Business Bundles. Please refer to Paper 2 for the closing positions for the TC-4 Bundles Discount Roadmap and TC-4 CVC List Price.¹

2021 has been a busy year for consultation on pricing and **nbn** appreciates the engagement and responsiveness of the Industry. It is **nbn's** intention to focus on the SAU variation process and ensure that an SAU variation is lodged in a timely manner.

2 Usage Risk and the Soft Cap

Paper 1 feedback on usage risk

RSP submissions to Paper 1 of this consultation stated concerns amongst RSPs that usage-driven costs may grow at a faster rate than the long-term trend and create financial headwinds in the near to medium term. RSPs' estimates of per annum growth in usage over the next 12 to 18 months ranged between 20% up to 40% with most RSPs' estimating growth of higher than 25%, generally on the basis that COVID had resulted in significant behavioural changes for customers.

RSPs primarily called for **nbn** to increase the Roadmap CVC inclusions commensurate with the usage estimates provided. However, this was not a measure that **nbn** could support given the significant embedded risk if usage growth was lower than the Industry's estimates and given the change rights under WBA4 which place restrictions on **nbn's** ability to decrease CVC inclusions below the level set out in the then current TC-4 Bundles Discount Roadmap, which may mean that such a change cannot be made for 12 to 24 months (depending on when the then current TC-4 Bundles Discount Roadmap ends).

Usage based billing was also raised, where RSPs are billed only for capacity used in the month, which is in line with similar constructs that **nbn** has raised in previous pricing consultations. Whilst this method proposes a number of advantages including the reduction or elimination of CVC forecasting/management and CVC congestion rules, moving to a usage based billing construct is not a straightforward or costless initiative. Because of this it was not considered a viable short-term solution but instead, **nbn** continues to consider it in the current SAU consultation.

¹ See <https://www.nbnco.com.au/content/dam/nbn/documents/media-centre/media-statements/2021/nbnco-pricing-review-2021-consultation-paper-2.pdf>



Paper 2 consultation on Soft Cap

A number of RSPs proposed that nbn explore a “CVC Boost-like” solution to help mitigate the risk of usage increase. While the previous CVC Boost was welcomed by the Industry, it was designed as a time-limited, COVID specific, measure and would have placed an unsustainable financial burden on nbn to continue over a longer period than planned. In that context, **nbn** put forward for feedback a new mechanism, subject to certain conditions, that could potentially have reduced RSP risk and management costs. In particular, based on RSP feedback and acknowledging the limitations of the previous CVC Boost, **nbn** proposed the Soft Cap mechanism in the Paper 2 consultation.

Subject to consultation and the commercial terms and conditions being finalised, the proposed mechanism would have provided an increase in bundled CVC inclusions (in the order of 30-40%) where:

- an RSP’s total cost of TC-4 bundles and overage, before any rebates, measured on a three month rolling average per service basis increases by 7% compared to the higher of either last year measured on a three month rolling average or the average from January 2021 to March 2021 (Cost Growth Criteria); and
- an RSP’s monthly churn remains below the RSP’s historical annualised churn rate plus 10% (Churn Criteria).

The offer was intended to provide increased cost certainty for each individual RSP in the potential event that data usage increases significantly. Based on the usage growth estimates provided by RSPs at the time, the proposed mechanism was estimated to provide significant cost savings in these scenarios. However, following the release of Paper 2 it was apparent that the higher usage growth estimates provided RSPs were not materialising in the near term (discussed further below).

The Industry’s feedback and alternatives assessed

The response from the Industry to the potential Soft Cap mechanism was mixed and while there was support and engagement from a few RSPs to develop the proposal, a number were also strongly against the idea on the basis of added complexity and concerns with the inclusion of the Churn Criteria.

The intention of the proposed Churn Criteria was to mitigate the risk of this proposal creating an incentive that would not otherwise exist for an RSP to disconnect its low-cost end users to achieve the Cost Growth Criteria. However, nothing in this proposal sought to limit RSPs from offering alternatives to end users which might better suit their needs.

nbn does not consider that the Soft Cap proposal gave rise to the type of concerns raised by some RSPs, however following this feedback, **nbn** evaluated alternatives to the proposed construct including:

- Increasing the churn threshold (i.e. >10% leeway)
- Changing the cost per service threshold to a total **NBN** cost threshold
- Removing the Churn Criteria

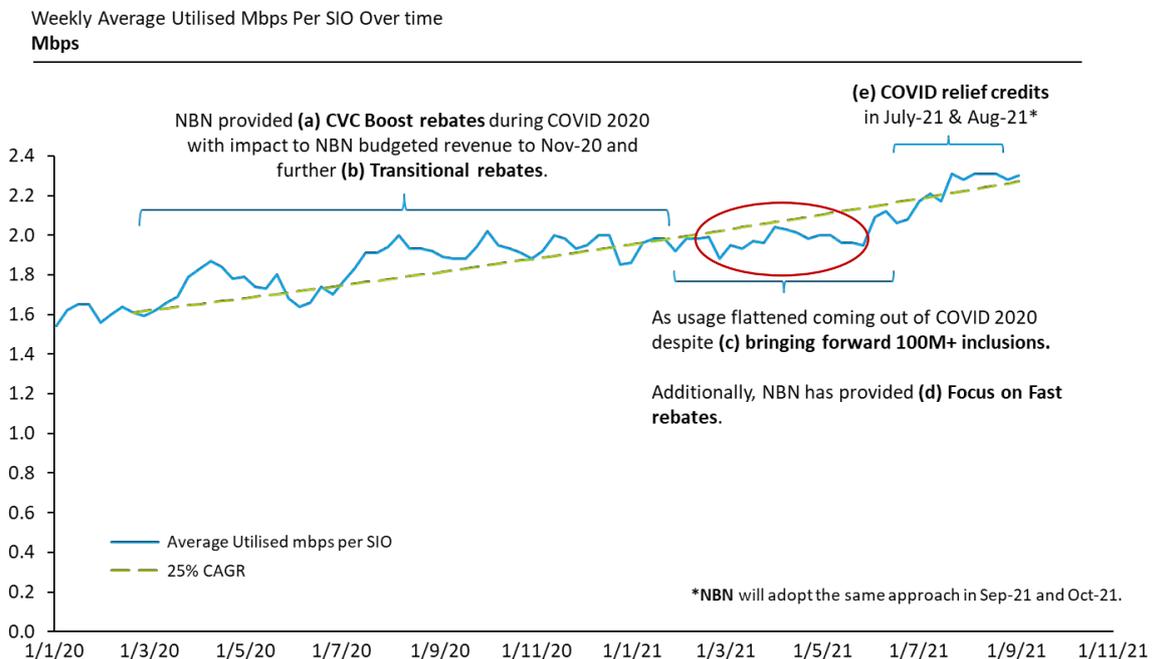
The alternate options either did not alleviate RSP concerns sufficiently or presented additional challenges, risks and/or operational complexity.

For completeness, additional feedback on the Soft Cap included changing the Cost Growth Criteria from a percentage threshold to absolute cost per service threshold which was also considered. However, since then a number of developments have occurred as described below.



Usage prior to 2021 lockdowns

Following the release of Paper 2, it was clear that the usage growth estimates of RSPs of as high as 40% p.a. was not materialising in the short-term as shown in the chart below which depicts actual busy hour CVC utilisation per service from February 2020 versus the long-term trend of 25% per annum.



The period between February 2021 and June 2021 saw suppressed usage which returned back to the long-term trend in July 2021 as a result of the COVID-19 lockdowns in New South Wales and Victoria in particular.

COVID-19 Delta Variant and Relief Credit

The COVID-19 Delta variant has driven lockdowns across multiple states resulting in temporary sharp spikes in usage. **nbn** acknowledged RSPs concerns of the variability of overage cost during this period and responded by providing a relief credit to RSPs for July and August 2021.

The Total Industry Credit Value has been derived by taking the pre-COVID-19 (February 2020) total Industry average utilised CVC TC-4 per active service as a baseline and applying a 25% CAGR to determine the minimum amount of CVC that would have been utilised based on pre-COVID 19 usage growth, within the range communicated by RSPs to **nbn**. With that baseline of assumed “normal” usage, all usage above that CAGR threshold will be determined to be the incremental overage used to calculate the relief. Each eligible RSP is then allocated a proportion of the Total Industry Credit Value based on their share of the Total Industry National Overage in Mbps of each month.²

While the relief mechanism may not provide the same forward-looking certainty as the proposed Soft Cap, it is both simpler and importantly more responsive to the short and sharp fluctuations in usage that are driven by lockdowns. It is also important to note that overage as a percentage of total TC-4 costs for RSPs overall has remained low at less than 5%.

² Please refer to the **nbn** Operations bulletin titled **nbn** August 2021 COVID-19 RSP Relief Update distributed on 2 September 2021 for more details on the credit calculation methodology for each RSP



Closure of Soft Cap consultation

Given the mixed feedback and concerns raised by multiple RSPs in respect to the Soft Cap and its conditions, combined with the observed softening of usage prior to the current COVID-19 lockdowns and subsequent COVID credit relief, nbn will not implement the Soft Cap mechanism.

With the current usage uncertainty directly attributable to COVID-19 lockdowns, **nbn** has committed to extend the COVID relief credit methodology until 31 October 2021, provided usage exceeds the Baseline Industry Usage Threshold based on 25% CAGR. As observed in the first half of this calendar year, **nbn** expects a softening of usage at the end of the current lockdowns. Should this not eventuate, **nbn** will look to respond appropriately, noting that the next uplift in CVC inclusions is 1 May 2022 per the TC-4 Bundles Discount Roadmap³. Beyond the short to medium term, issues regarding cost variability are part of the active consultation on the SAU variation.

3 Billing and TC-4 Business Bundles

3.1 Billing

In responses to Paper 2 there were no additional objections to **nbn** continuing to work towards a single calendar-month aligned billing cycle. **nbn** intends to work with RSPs in an effort to minimise related cost, as this was a concern raised by a small number of RSPs as part of their feedback. The initiative will be pursued, including further engagement with RSPs regarding a transition plan and timing, through the Product Development Forum (PDF) independently of pricing activities. **nbn** intends to commence the development of a proof of concept in November 2021.

3.2 TC-4 Business Bundles

In Paper 2, **nbn** confirmed the extension of Business Bundle 1 (including discounted eSLA) to the Business High Speed Tiers (250/100Mbps, 500/200Mbps and 1,000/400Mbps⁴). As a result, some RSPs recommended extending Business Bundle 2 (including TC-1 1Mbps discounted to \$5) to the Business High Speed Tiers as well. This prompted **nbn** to also propose the extension of Business Bundles 2 to the Business High Speed Tiers as part of Paper 2.

The majority of respondents were supportive of the proposal to extend Business Bundles 2 to the Business High Speed Tiers despite some respondents also indicating that their preferred small and medium business solution would remain Enterprise Ethernet. Given this feedback, **nbn** will proceed with enabling both Business Bundles 1

³Increase of TC-4 Bundles Discount 250/100Mbps tier CVC Inclusion to 5.25Mbps will be implemented on 1 Dec 2021

⁴References 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**[™] broadband access network, depends on the **nbn**[™] 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). Regardless of the retail service that end customers purchase, the actual wholesale speeds delivered by **nbn**'s 1000/400Mbps wholesale speed tier will be less than 1Gbps due to equipment and network limitations.



and Business Bundles 2 for the Business High Speed Tiers as per the table below starting with the 250/100Mbps wholesale speed tier effective 1 December 2021, followed by the remaining two speed tiers on 1 May 2022.

TC-4 Business Bundles		May 21 to Apr 22		May 22 to Apr 23		Bundle Inclusions		Status
		Effective Charge	CVC Inclusion (Mbps)	Effective Charge	CVC Inclusion (Mbps)	Enhanced fault rectification service	TC-1 1Mbps	Existing / Proposed
Business Bundles 1	B50/20	\$55	2.5	\$55	2.65	eSLA12 (24/7)		Existing
	B100/40	\$75	4.25	\$75	4.5			Existing
	B250/100*	\$100	3.5	\$100	5.75			Proposed
	B500/200	\$130	3.5	\$160	6.25			Proposed
	B1000/400 ⁵	\$180	3.25	\$230	7.0			Proposed
Business Bundles 2	B50/20	\$60	2.5	\$60	2.65		1Mbps	Existing
	B100/40	\$80	4.25	\$80	4.5			Existing
	B250/100*	\$100	3.5	\$105	5.75			Proposed
	B500/200	\$130	3.5	\$165	6.25			Proposed
	B1000/400 ⁵	\$180	3.25	\$235	7.0			Proposed

Table 1 Proposed and existing TC-4 Business Bundles

*inclusion in Business Bundles and CVC inclusion increased to 5.25Mbps effective 1 December 2021.

4 Implementation Timeline

Below is a summary of the changes as a result of this consultation.

1 May 2021:

- Implementation of TC-4 Bundles Discount Roadmap CVC inclusion changes and price changes

1 December 2021:

- Increase TC-4 Bundles Discount 250/100Mbps tier CVC Inclusion to 5.25Mbps
- Include 250/100Mbps wholesale speed tier in Business Bundles 1 and Business Bundles 2

31 March 2022:

- Reduce the CVC TC-4 recurring Charge in the Price List from \$17.50 to \$15.75

⁵ As noted above, references to speeds in this document are to layer 2 wholesale peak speeds not end customer speeds. Regardless of the retail service that end customers purchase, the actual wholesale speeds delivered by nbn’s 1000/400Mbps wholesale speed tier will be less than 1Gbps due to equipment and network limitations.



1 May 2022:

- Implementation of TC-4 Bundle Discount Roadmap CVC inclusion and price changes
- Include 500/200Mbps and 1000/400Mbps⁶ wholesale speed tiers in Business Bundles 1 and Business Bundles 2

5 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.

⁶ As noted above, references to speeds in this document are to layer 2 wholesale peak speeds not end customer speeds. Regardless of the retail service that end customers purchase, the actual wholesale speeds delivered by **nbn**'s 1000/400Mbps wholesale speed tier will be less than 1Gbps due to equipment and network limitations.