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NBN Co proposes big discounts to wholesale prices and annual improvements in capacity inclusions

Summary of NBN Co Wholesale Pricing Review 2019 Consultation Paper 2:

- Significant discounts from entry level to high-speed wholesale tiers
- Future roadmap reveals yearly improvements in capacity inclusions to meet customers' growing data demand
- Increased capacity inclusions with continued ability for Retail Service Providers (RSPs) to share unused data capacity among other customers within specific Connectivity Serving Areas (CSAs)¹

NBN Co, the company building and operating Australia's national broadband network, is proposing to introduce significant discounts and extra capacity inclusions across the majority of its wholesale broadband product range.

The proposed changes in the Pricing Review 2019 Consultation Paper 2 follow 12 weeks of extensive consultation with more than 50 Retail Service Providers (RSPs) and industry groups.

The common themes to emerge from the first consultation paper were industry requests for greater certainty, value and simplicity.

Chief Customer Officer Residential at NBN Co, Brad Whitcomb, said: "We've responded to industry feedback with our proposal to introduce significant discounts and substantial, additional data inclusions.

"We have taken action to improve industry certainty by increasing CVC (capacity) across most wholesale bundles discounts and, for the first time ever, we've announced that we will be publishing a rolling two-year roadmap of future pricing with incremental annual increases in capacity inclusions on most bundle discounts to meet customers' growing data demand.

"This roadmap is an important step in showing service providers that we are listening and taking decisive action to provide greater certainty to the industry.

"To lift take-up of **nbn** services and help improve customer experience, while balancing industry economics, we propose to introduce a range of discounts across most speed tiers from the Entry Level Bundle discount to our proposed introduction of three new, heavily discounted wholesale high-speed tiers.

"We are also consulting on the possible introduction of a new 100/20 wholesale bundle discount for \$58 and propose to offer annual increases in capacity inclusions on both the 100/20 and 100/40 wholesale bundle discounts.

"The proposed changes represent a significant commitment and investment by NBN Co, aimed at delivering greater value and a better customer experience of the **nbn**[™] access network, while improving the economics for RSPs and creating greater certainty for the industry.

"We are also proposing to take action to simplify CVC utilisation conditions and reduce our customer transfer fees and will continue to work with industry further to simplify **nbn**'s activation and transfer charges."

High speed tiers:

NBN Co is proposing significant wholesale discounts and higher capacity inclusions across its high-speed tiers. Subject to consultation with the industry, NBN Co's proposed changes will see the development and introduction of three new wholesale high-speed tiers² and associated bundle discounts:

- A 100/20 bundle discount starting with 3.75Mbps of included capacity at an effective charge of \$58 per month, as foreshadowed at the launch of the consultation in June 2019. NBN Co is proposing to increase capacity to 4Mbps in May 2021. The new 100/20 bundle discount is \$7 less, or around 11 per cent cheaper than the \$65 effective charge for the 100/40 bundle discount and the increase in CVC inclusion (\$6 of value) improves the total value by 20 per cent.
- A 250/25 bundle discount starting with 4.75Mbps of included capacity at an effective charge of \$68 per month. NBN Co is proposing to increase capacity to 5Mbps in May 2021. The new 250/25 bundle discount is \$32 less, or 32 per cent cheaper than the \$100 effective charge for the 250/100 bundle discount.
- An up to 1000/50 bundle discount starting with 5.75Mbps of included capacity at an effective charge of \$80 per month. NBN Co is proposing to increase capacity to 6Mbps in May 2021. The new up to 1000/50 bundle discount is \$100 less, or 55 per cent cheaper than the previous \$180 effective charge for the 1000/400 bundle discount. Additionally, an almost doubling of the CVC inclusion to 5.75Mbps (\$22 of value) improves the total value by almost 68 per cent. The parameters of the new speed tiers and precise nature of the speed commitment on HFC will be developed and finalised during the consultation period.

The 100/20Mbps AVC TC-4 proposal is being considered across all fixed line footprints, with ranged peak information rates (PIRs) being provided for FTTB, FTTC and FTTN services. The 250/25Mbps and the up to 1000/50Mbps³ proposals are being considered for **nbn**'s FTTP and HFC footprints, and the feasibility of offering these tiers in the FTTC footprint is being investigated.

NBN Co will be releasing a more detailed Product Construct Paper on the proposed new high-speed tiers with the aim of getting further industry feedback on the product and pricing constructs including naming conventions for the above wholesale products, acknowledging that NBN Co is looking to move towards more descriptive names.

Brad Whitcomb said: "One of the most important benefits for all customers is that our proposed high-speed wholesale bundle discounts with more generous CVC inclusions will enable RSPs to continue to apply unused CVC as a pool of capacity that can be shared across all bundled discount services within the same Connectivity Serving Area (CSA), helping to manage CVC costs and improve CVC capacity for other customers in that area.

"The introduction of an affordable, new 1000/50 bundled discount is a game-changer for the industry and an exciting innovation for data-hungry customers."

Mid speed tiers:

To deliver a more economically attractive 25/5 bundle discount to RSPs, NBN Co is proposing to reduce the wholesale effective charge from \$45 (including 2Mbps of CVC) that exists today to \$37 (including 1.25Mbps of CVC) in November 2019 and to increase this capacity allocation to 1.5Mbps in May 2021.

And recognising that 56 per cent of **nbn** customers are currently subscribed to the 50/20 wholesale speed tier, NBN Co is proposing to help RSPs improve their service experience by adding extra CVC inclusion to the (\$45) 50/20 wholesale bundle discount, increasing from a CVC inclusion of 2Mbps today to 2.25Mbps in May 2020, 2.5Mbps in May 2021.

Entry level speed tier:

NBN Co is also making a strong commitment to the entry level, price-sensitive segment, and is planning to introduce a modified 12/1 Entry Level Bundle (mELB) discount on 1 October 2019.

To accommodate voice-only customers and price sensitive customers who use some data, NBN Co proposes to update the Entry Level Bundle discount as follows:

- The starting effective wholesale charge of \$22.50 and inclusion of 150Kbps (0.15Mbps) remains unchanged for voice only and customers who use limited data.
- The additional charge that is applied when the average monthly peak usage across relevant services exceeds the included 150Kbps will be reduced from \$22.50 to \$5.70, plus an additional CVC charge of

\$8/Mbps to accommodate higher data users. The additional charge is proposed to further reduce to \$4.90 in May 2020 and to \$4.10 in October 2020.

The proposed changes will allow the modified Entry Level Bundle discount (ELB) to be scaled up to include additional capacity at a significantly lower incremental cost. This will offer RSPs the flexibility to use the wholesale ELB construct to develop and market affordable 12/1 broadband plans with either capped or uncapped data inclusions.

Brad Whitcomb said: “In feedback received during the first round of consultation, respondents and industry bodies highlighted that the 12/1 wholesale speed tier is an important tool for maintaining a clear migration path from legacy ADSL to **nbn** services. Specifically, a number of respondents stated that a discount to the entry level wholesale bundle would help them to maintain an affordable retail broadband plan in market with uncapped data inclusions.

“The changes to the Entry Level Bundle discount will help provide greater choices to RSPs to support more cost-conscious customers and supports one of **nbn**'s priorities, which is to ensure we continue to have strong take-up.

“We believe the higher CVC inclusions strike the right balance between helping RSPs to develop affordable solutions for Australians, giving service providers a platform where they can compete, while also allowing NBN Co to generate a fair and reasonable return so we can invest in the network.

“While we know that some RSPs have called for the removal of CVC charges, the reality is that there is a real cost in provisioning and dimensioning the network to accommodate rising data consumption. We believe our bundled charges are the fairest way to implement a user-pays approach to wholesale pricing at this time.

“The majority of respondents in the first round of consultation highlighted streaming video as an important application driving the need for higher download speeds and more capacity inclusions. We have elected to focus development efforts on discounting that does not utilise segregated video traffic. As an alternative, to improve customer experience, we will focus on increasing capacity inclusions and making higher speeds more affordable.”

NBN Co is also proposing to conduct annual, industry-based consultations to review and refine bundle discounts and inclusions.

In the interests of transparency, NBN Co has opted to make Pricing Review 2019 Consultation Paper 2 public and will seek further confidential feedback from the RSPs on the proposals in the consultation paper. The final outcomes of the wholesale pricing consultation are expected to be announced in November 2019.

For further information, visit www.nbnco.com.au

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¹ RSPs are permitted to apply unused CVC as a pool of capacity that can be shared across all bundled discount services used by other customers of that RSP within the same Connectivity Serving Area (CSA).

² User experience, including the speeds actually achieved over the **nbn**[™] broadband access network, depends on the configuration over which services are delivered to the premises, whether the user is using the service during the busy period, and some factors outside our control (like user equipment quality, software, chosen broadband plan or and how the retail service provider designs its network) and contention on the **nbn**[™] network, particularly in busy periods.

³ The precise nature of the PIR commitment for HFC is being consulted on and is subject to change as further detailed in the Product Construct Paper.