

RMID0821 Pricing Review Consultation Paper 2

September 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 and received constructive and varied feedback.

Drawing on the analysis of feedback received during the first consultation, **nbn** has identified seven pricing updates that can help improve customer experience, increase take-up and balance industry economics. The purpose of this second phase of consultation is to seek feedback from PDF participants on these options, as well as to communicate some immediate changes.

In the interest of transparency, **nbn** has elected to make this paper available to the public. Members of **nbn**'s product development forum are invited to submit responses to the questions posed in this paper through the product development forum website, which will remain a confidential channel for product and pricing consultations.

This consultation paper will use the same structure as the first paper 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 first phase of consultation

2.1 Themes

Three common themes emerged from the collected responses to the first consultation paper: Certainty, Value and Simplicity.

2.1.1 Certainty

The need for certainty was expressed by several respondents that articulated a preference for single-part or AVC-only pricing.

While single-part pricing would provide valuable certainty to RSPs, it fails to take into account the cost in provisioning and dimensioning the network to accommodate rising data consumption. **nbn** believes that our bundled discounts are the best way to implement a user-pays approach to wholesale pricing at this time, and this paper will therefore focus on ways that **nbn** may provide cost certainty within the structure of discount bundles.

2.1.2 Value

The need for value emerged from feedback received in four respects: the need to provide attractive low usage options, the need to provide attractive high-speed options, the need to review bandwidth inclusions, and the need to promote competition.

While respondents agreed on the need for attractive high-speed bundle discounts as well as higher CVC bandwidth inclusions, they were divided on how to best address affordability. Some respondents preferred that affordability be addressed by means of a generally available low-speed/low-cost offer, while others preferred that all services



below 50Mbps be discontinued and affordability be addressed by means of the introduction of a high-speed low-cost means tested offering.

Several respondents furthermore requested that service transfer charges be reviewed to promote competition.

2.1.3 Simplicity

While there was a general call for simplification to aid with RSP operations, the need for simplicity was expressed most strongly in three domains:

- CVC capacity management,
- **nbn**'s product portfolio, and
- The structure of **nbn**'s discounts and incentives.

The majority of respondents expressed a preference to be able to operate a single type of CVC and advocated for the development of bundle discounts in respect of the 12Mbps and 25Mbps speed tiers to reduce the need to operate both "basic" and "bundled" CVCs.

2.2 Design objectives

In light of these considerations, **nbn** has sought to achieve the following objectives while designing the solutions presented in this paper:

- Increase affordability and help improve customer experience,
- Increase take-up, and
- Achieve these objectives while balancing industry economics.

nbn believes that the changes outlined in this paper will provide greater flexibility for RSPs to serve customers by offering important effective charge reductions and long-term visibility in key areas. These changes will improve certainty for RSPs, reduce the need to operate both "basic" and "bundled" CVCs, and enable RSPs to offer greater value for customers.

3. Lifting take-up

3.1 Modifying the Entry Level Bundle Discount

In feedback received during the first round 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** 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 where the average monthly peak CVC usage across ELB 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 where average monthly peak CVC usage across



ELB 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.

With this updated construct, RSPs can build retail products based on the following wholesale rates and inclusions from 1 October 2019:

ELB Example Application	Included Capacity	Effective Charge	Additional usage charge	Additional CVC \$8/Mbps	Total effective wholesale charge
Voice-only	150Kbps	\$22.50	-	-	\$22.50
Voice and low data usage	150Kbps	\$22.50	-	-	\$22.50
Voice & 500Kbps CVC	150Kbps	\$22.50	\$5.70	350Kbps	$\$22.50 + \$5.70 + (0.35\text{Mbps} * \$8) = \$31.00$
Voice & 1Mbps CVC	150Kbps	\$22.50	\$5.70	850Kbps	$\$22.50 + \$5.70 + (0.85\text{Mbps} * \$8) = \$35.00$

Table 1 Entry Level Bundle usage examples

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?

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

3.2 Rebalancing the 25Mbps bundle discount

Originally launched to help RSPs migrate to “bundled” CVCs, a significant number of consultation respondents asked for the 25Mbps bundle discount to be made available as an intermediate option with a different balance of CVC inclusion and cost.

In order to support RSPs’ use of the 25Mbps bundle discount as an input into an intermediate level retail offer **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.

While the effective charge is reduced by the equivalent of 1Mbps of CVC coverage (\$8), the CVC inclusion is only reduced by 0.75Mbps. Accordingly, compared to the current 25Mbps bundle, this rebalancing effectively provides RSPs with an additional 250Kbps of CVC capacity if they choose to provision 2Mbps of CVC capacity (or more) per AVC (e.g. for an effective charge of \$45, RSPs will obtain 2.25Mbps of CVC capacity, compared to 2Mbps under the current 25 Mbps bundle).

With additional CVC available at \$8 per Mbps, pooled at the connectivity serving area level, the updated 25Mbps bundle discount is expected to enable the consolidation of services to “bundled” CVCs, and to support the use of the updated 25Mbps bundle discount as an intermediate level offer.



nbn is currently considering options to give effect to this change from November 2019.

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

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

Question 3.2.2 If your organisation uses both "basic" and "bundled" CVCs, how will this impact that decision?

3.3 Targeted solutions for low income households

As respondents that were in favour of developing an offer with conditional availability for low income households requested that such an offer be co-developed in collaboration with them, further exploration of this solution will be continued in a separate consultation process.

3.4 Targeted solutions for transitory customers

During the first round of consultation, **nbn** received feedback from a subset of respondents on the specific needs of renters and other transitory customers. This included:

- The need to provide greater flexibility in allowing for fixed broadband services to move with customers.
- Minimising setup costs and term commitments.
- Minimising overall hassle involved with the process of ordering and assuring services.
- An overlap with issues of affordability, digital ability and literacy.

nbn is aware that a number of RSPs already have solutions in place to address some of these specific needs. We will continue to work collaboratively with RSPs and industry to ensure that these solutions adequately address the needs of customers and explore the development of further solutions where appropriate.

4. Keeping ahead of consumer bandwidth requirements

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 data inclusions.

While **nbn** investigated the possibility of lowering the price of video traffic by differentiating video traffic flows during the initial consultation, only two RSPs supported the proposed initiative. **nbn** has therefore elected to focus on ways to meet the challenge of growing video traffic by increasing CVC inclusions and making higher speeds more affordable.

4.1 Updating the 50Mbps bundle discount

In order to accommodate customers with growing usage of data-intensive applications, **nbn** proposes to update the 50Mbps bundle discount as follows:



- From May 2020, increase the CVC inclusion in the 50Mbps discount bundle 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, at no additional cost to RSPs.
- From May 2021, increase the CVC inclusion to 2.5Mbps per AVC, while keeping the effective charge unchanged at \$45 per month.

nbn expects that these increases will significantly reduce costs associated with CVC and overage.

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

4.2 Consulting on new TC-4 100Mbps, 250Mbps and an up to 1Gbps wholesale speed tiers¹

The majority of respondents to the first round of consultation supported the development of lower priced wholesale 100Mbps, 250Mbps and 1Gbps TC-4 peak information rate product tiers. High CVC inclusions were listed as an important feature of associated bundle discounts, as respondents universally suggested that higher usage would accompany the higher speed tiers. To accommodate both higher CVC inclusions and lower discount bundle charges, **nbn** is consulting on and proposes to develop several new wholesale high-speed TC-4 peak information rate AVCs and associated bundle discounts:

- A 100/20Mbps bundle discount starting with 3.75Mbps of included CVC capacity at an effective charge of \$58 p/m.
- A 250/25Mbps bundle discount starting with 4.75Mbps of included CVC capacity at an effective charge of \$68 p/m.
- A 1000/50Mbps bundle discount starting with 5.75Mbps of included CVC capacity at an effective charge of \$80 p/m.²

The 100/20Mbps AVC TC-4 proposal is being considered across all fixed line footprints, with ranged PIRs being provided for FTTB, FTTC and FTTN services. The 250/25Mbps and the up to 1000/50Mbps² 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.

The new AVC speed tiers are intended to be peak information rate layer 2 wholesale products and the usual factors impacting end user speeds actually achieved will be applicable (including how **nbn** and RSPs design and configure their networks, whether the user is using the service during the busy period, end user equipment and other factors). The parameters of the new speed tiers will be developed and finalised during consultation.

These three new bundle discounts constitute very attractive effective wholesale charges for high-speed tiers when compared to the current 100/40, 250/100 and 1000/400 bundle discounts. When viewed with included capacity,

¹ References to speeds in this paper are not end user speeds they are wholesale layer 2 peak information rate bandwidth provided to the RSP. As RSPs are aware, 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 our 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 Product Construct Paper.



the effective charge for the new 100/20 bundle discount is 20% lower than the current 100/40 bundle discount, with an effective charge that is \$7 lower despite having 0.75Mbps more included CVC (itself worth \$6 based on an effective charge of \$8/Mbps for CVC capacity). On the same basis, the effective charge of the new 1000/50 bundle discount is 67% lower than the existing 1000/400 bundle discount with an effective charge that is \$100 lower despite having 2.75Mbps more included CVC (itself worth \$22 based on an effective charge of \$8/Mbps for CVC capacity).

To allow for protocol overhead, **nbn** furthermore proposes to over-dimension the downstream speed of both product tiers which will be offered under the new 100Mbps and 250Mbps bundle discounts. For more information on the proposed new speed tiers, as well as intended list prices and bundle discounts, RSPs are invited to refer to the companion document released with this paper titled "**nbn** Product Construct Paper, RMID0844 New AVC Higher Speed Tiers, September 2019"

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?

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

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. As these conditions have played an important role in helping to ensure that customers obtain a consistent service experience, **nbn** believes that minimum standards of CVC provisioning remain necessary.

In order to address RSP concerns about administration costs and provide RSPs with more flexibility in how they use the higher discount bundle inclusions, **nbn** proposes to simplify the congestion conditions and breach consequences in May 2020.

5.1 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 proposes to simplify this to a single condition that is measured at a CVC level over an entire billing period. The longer measurement period is intended to give RSPs more time to address any capacity issues. The proposed "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.

Question 5.1: Does your organisation support this change to the CVC utilisation conditions?



5.2 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 proposed new rules, which may apply in addition to other consequences 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.

Question 5.2: Does your organisation support this change of CVC utilisation condition breach consequences?

6. Evolving non-recurring charges

Respondents to the first consultation paper suggested that several non-recurring charges should be examined as part of future pricing reviews. The charges mentioned most often were the various types of activation charges such as service transfers and transfer reversal, followed by subsequent installations fees, virtual and physical NNI fees, the new development fee, quotes fees, co-location fees and callout fees.

This paper will address charges requested by more than one RSP: activation charges, subsequent installation charges and NNI 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. In the interim, **nbn** proposes to temporarily discount service transfer fees from \$22.50 to \$5.00, effective from 1 December 2019 to 30 November 2020.

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?

6.2 Subsequent installation charges

As service continuity has specific value for business customers, some of the charges for subsequent installations are currently discounted in accordance with the terms of the Special Services Migration Subsequent Installation Credit, the TC-2 Business Bundles Discount and the TC-4 Business Bundles Discount.

Retail service providers interested in this subject are invited to refer to the document “Industry Consultation Closure Paper – V2 Business Bundles Discount” released through the PDF in March 2019 for details, terms and conditions.



6.3 NNI charges

NNI charges for 1G and 10G ports have already been updated as part of the introduction of 100G NNI ports. Specifically, the non-recurring activation charge for 1000BaseEX ports has been discounted from \$7,000 to \$2,000 and the monthly recurring charge for 1000BaseEX ports has been discounted from \$500 to \$250. Likewise, the non-recurring activation charge for 10GBaseER ports has been discounted from \$35,000 to \$6,000 and the monthly recurring charge has been discounted from \$1,000 to \$500.

Retail service providers interested in this subject are invited to refer to the document "Final Product Construct Paper 100G NNI Bearer (RMID0669)" released through the PDF in May 2019.

7. Balancing price stability and flexibility

7.1 Discount bundle charge and inclusion roadmap

Respondents to the first consultation paper held varied views on how often **nbn** should review the effective charges of its discount bundles 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 discount bundles 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** proposes to 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 shows the proposed format and current proposed pricing for **nbn**'s forthcoming discount bundle charges and inclusions roadmap. The discount bundle charges and CVC inclusions shown are not final and are subject to further change following RSP feedback and finalisation by **nbn**. Please do not place any reliance on these figures.

In the table, the effective charge for the Entry Level Bundle discount is listed over two lines to reflect the different use cases of the discount:

- Where the ELB discount bundle is used for voice-only or voice and low data usage (where the average monthly peak CVC usage across ELB services on a CVC is 150Kbps or below and no additional CVC capacity is purchased), the effective price is listed as just the charge for the Entry Level Bundle.
- Where the ELB discount bundle is used for high data usage (where the average monthly peak CVC usage across ELB services on a CVC is above 150Kbps), the effective charge is listed as the sum of the ELB base charge and the additional usage charge (which is currently \$22.50 and will be reduced to \$5.70 from October 2019 by way of a waiver).

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



Discount bundle ³	Today		Oct / Nov 19		May'20		Oct 20		May'21	
	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)	Effective Charge	Inclusion (Mbps)
ELB with usage below 150Kbps	\$22.50	0.15	\$22.50	0.15	\$22.50	0.15	\$22.50	0.15	\$22.50	0.15
ELB with usage above 150Kbps ⁴	\$45.00	0.15	\$28.20 (Oct)	0.15 (Oct)	\$27.40	0.15	\$26.60	0.15	\$26.60	0.15
B25	\$45	2	\$37 (Nov)	1.25 (Nov)	\$37	1.25	\$37	1.25	\$37	1.5
B50	\$45	2	\$45	2	\$45	2.25	\$45	2.25	\$45	2.50
New B100/20	-	-	-	-	\$58	3.75	\$58	3.75	\$58	4.0
B100/40	\$65	3	\$65	3	\$65	3.75	\$65	3.75	\$65	4.0
New B250/25	-	-	-	-	\$68	4.75	\$68	4.75	\$68	5.0
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
New B1000/50	-	-	-	-	\$80	5.75	\$80	5.75	\$80	6

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

8. Next Steps

nbn invites written submissions from PDF participants by Friday 25th October 2019. 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 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.

³ Discount bundles 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.

⁴ 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.