



TELSTRA CORPORATION LIMITED

**SUPPLEMENTARY SUBMISSION TO THE JOINT PARLIAMENTARY STANDING COMMITTEE -
INQUIRY INTO THE BUSINESS CASE FOR THE NBN AND THE EXPERIENCES OF SMALL
BUSINESSES**

Public version

22 September 2020



CONTENTS

01	Delivering on the intent and potential of the NBN in a world forever changed by COVID-19	3
02	Meeting the needs of our NBN customers during the crisis	4
03	How COVID-19 has changed NBN usage and industry economics	5
04	NBN Co wholesale pricing for Australia's future – what needs to change	6



01 Delivering on the intent and potential of the NBN in a world forever changed by COVID-19

Telstra welcomes the opportunity to make this supplementary submission to the Committee, in recognition of the significant impact of COVID-19 on the matters that fall under the scope of the Committee's terms of reference.

While the COVID-19 crisis has been “unprecedented” in its impact to society and the economy, it also presents an unprecedented opportunity for far-reaching reform. Australia has a once-in-a-generation opportunity to create and accelerate real change that will grow and shape our economy and society more broadly. There is a window now to take significant steps forward which have the potential to dramatically change our future, if we have the courage to make bold decisions.

The Australian digital economy is encountering unprecedented growth, driven by the rapid changes necessitated by COVID-19. Consumers and businesses have been driven to embrace technology like never before. During the height of the pandemic we saw a high acceleration in digitisation, from telehealth to online learning, remote working and e-commerce. As a nation we achieved in a few months what might have taken us years to progress, and it is important that we now do not lose that momentum.

The crisis has tested, and proven, the value of Australia's investment in the NBN. Telstra acknowledges and applauds NBN Co's response to COVID-19. NBN Co acted swiftly to increase capacity to retail service providers (RSPs) during this time at no charge. This enabled RSPs to smoothly support their customers as they moved quickly to work and study from home. We have seen first-hand the power of what the right NBN wholesale conditions at the right time can enable RSPs to deliver to Australian consumers.

Outside of these crisis conditions, however, the NBN is not delivering to its full potential. Australia continues to perform poorly in international comparisons, with slower speeds and higher prices than benchmark countries. Consequently, there is a risk the productivity and social benefits the NBN was designed to deliver (and which COVID-19 has proven it capable of delivering) will not be fully realised. More critically, the progress recently made in growing Australia's digital economy is at risk, as is the NBN's role in supporting our vital post-COVID economic recovery.

NBN Co's temporary COVID-19 “40% free CVC” offer allowed RSPs to provision the additional capacity needed to support a positive customer experience during the crisis without an associated cost penalty. But while the offer is temporary, Australia's enhanced reliance on digital connectivity is here to stay. When this offer is withdrawn, end-customers and RSPs will have to face significant increases in costs for connectivity, at the same time as connectivity remains critical to the recovery of the COVID-19 economy.

As a country we should be looking to maximise the ongoing benefits of our investment in the NBN, which can only be achieved by making sure take-up and usage is maximised. The CVC charge is a penalty on utilisation and take-up of the NBN, which works to discourage the network's use through higher retail prices and/or seeing RSPs move customers onto alternative networks, such as 5G. It also risks RSPs not buying enough capacity, which reduces the speed and quality of end-customers' broadband services. All of these impacts work together to put pressure on the economics of the NBN.

As we explain further in section 4 below:

- Lower prices set to encourage take-up of the higher speed tiers would stimulate NBN usage and improve downstream productivity and economic growth. Helping more Australians thrive and get connected on higher performing broadband at an affordable price is good for Australians and good for industry, including NBN Co.
- What has also so far been absent despite NBN Co being a monopoly supplier is a regulatory framework that reduces regulatory risk for broadband providers and their customers, and which provides predictability in the long term. COVID-19 has once again underlined the critical importance



of telecommunications networks. Telecommunications is now arguably Australia's most important infrastructure to this digital recovery. It is therefore crucial that we have the policies and regulatory framework fit for purpose and pro-investment for the sector.

- It is also vital that we ensure our more vulnerable citizens cannot just participate in Australia's new digital economy, but truly benefit from the investment in the NBN.

It is in everyone's interests to make the NBN a success. The success of our economy and our nation over the next decade will depend on the success of our telecommunications infrastructure. It's crucial that we have the policies in place to support it.

02 Meeting the needs of our NBN customers during the crisis

This year is one we will always remember: a year shaped and scarred by the 2019-20 Australian bushfires and the COVID-19 global pandemic. These crises have exposed the fragility of our world and caused extraordinary hardship and disruption. They have also reminded us of our collective strength and resilience, and provided an opportunity to pause and reflect on the world as it is, and how it could be.

This year has also brought many things back to first principles, highlighting again the importance of being able to connect – to the people and things we love, the services and information we need, and the communities to which we belong. Telstra has played a central role in providing that connectivity just as we have for our 100+ year history.

This period of extraordinary disruption has also caused Telstra – like many organisations – to think deeply about our role and responsibilities in the community. We have been challenged to adapt to find new ways of supporting our customers, our people and the country in this time of need.

During COVID-19, our actions included putting job reductions on hold; providing extra paid leave for Telstra employees and casuals; bringing forward \$500 million in capital expenditure from the second half of FY21 to calendar year 2020 to accelerate the rollout of 5G and provide the economy with much needed investment; and creating relief programs for consumer and small business customers. Through the Telstra Foundation we also delivered a Mental Health Relief Package to fast track and enhance online mental health support for young people across Australia.

Along with helping ~2.6 million people to stay connected during the COVID-19 pandemic, this year we provided assistance to around 900,000 vulnerable customers and enabled 23,000 people to receive digital capabilities training through our Everyone Connected programs.

The forced isolation and physical distancing measures introduced during the COVID-19 pandemic have caused our customers to rely more heavily on our services than ever before. Be it for online learning, health appointments, staying in touch with loved ones or keeping a business up and running, being online has never been more important.

Between March and June this year, Telstra offered our consumer and small business customers additional mobile data and unlimited broadband data at no extra charge. This data has helped to facilitate videoconferencing, cloud connectivity, streaming and content downloads, all of which are important tools when working, studying and enjoying down-time at home. We also paused all late payment fees and disconnections during this same time period, and offered eligible small businesses who had to cease trading due to COVID-19 the option to suspend their fixed business service, free of charge, until they're up and running again. We made it easier for our small business customers to work from home by discounting digital services and mobile broadband plans, and setting up free Virtual Meeting Rooms to enable video and audio conferencing. These offers have been extended for our customers in Melbourne, who are under increased COVID-19 restrictions.

Despite the pandemic, we also continued to provide more coverage to more people in regional and remote places. As of June 2020, we have delivered more than 700 blackspots sites and we also completed a further 215 small cells for remote communities, which enhance mobile coverage where it is not feasible to construct a



full mobile base station. In the five years to end of June this year we have invested \$7.5 billion in our mobile network nationally with \$3 billion of that invested in regional areas alone. We have also developed a range of next generation coverage extension solutions to deliver an improved mobile experience for our regional customers and those on the fringe of network coverage. In FY20, we also expanded the reach of our NB-IoT network to cover four million square kilometres across Australia, whilst our LTE-M network reaches three million square kilometres. Our IoT network reach and capacity supports performance efficiencies and stimulates economic benefit across regional Australia.

We have been particularly committed to ensuring our customers in vulnerable circumstances can remain connected during this challenging time. Between March and June this year we provided discounts to eligible consumers and small business customers currently receiving the JobSeeker payment, and unlimited home phone calls for eligible pensioners, to help relieve some of the burden. With the help of NBN Co, we are also offering a year-long \$40/month home broadband discount until September 30 to eligible low-income families with school-aged children.

03 How COVID-19 has changed NBN usage and industry economics

Throughout the pandemic, the NBN and technology more broadly has played a central role in enabling continued access to education, healthcare, work and critical services amidst physical isolation and social distancing.

Through COVID-19, voice calls on our national network have increased by as much as 40 percent. In many cases, landlines have been the only means of contact our NBN voice-only customers have had with family, friends, and vital services such as virtual GP appointments.

We normally see a 30 to 40 percent increase in data traffic on our fixed network year-on-year. While we have seen daytime peak traffic on our fixed network increase by as much as 70 percent when compared with pre-COVID traffic, it has been easily carried. This increase – mainly in our uplink traffic – can be attributed largely to an increase in video calls used for meetings and schooling. The industry-wide collaboration between RSPs, NBN Co and various content providers has played a key role in allowing these traffic increases to be absorbed painlessly.

Telstra acknowledges and applauds NBN Co's response to COVID-19. However, NBN Co has been insistent that the 40 percent CVC uplift across all speed tiers it introduced in March 2020 is a strictly time-limited temporary offer (currently set to expire on 30 November 2020).

It is now time to think about the level of NBN wholesale pricing needed to support Australia's longer-term data needs. Given many people will continue to work and study from home for the foreseeable future, we think it makes sense for NBN Co to look at removing the CVC pricing structure altogether. COVID-19 has fundamentally changed the way our country works. We need to think differently about everything.

According to the ACCC's wholesale market indicators reports¹, there has been a compound annual increase of 32% over the past 3 years in industry average peak CVC per user, across all speed tiers. If there is no change to NBN Co's current pricing and inclusions, Telstra anticipates significant increases in its average per customer costs of supply by June 2022.

NBN wholesale pricing is the largest negative impact on Telstra's fixed business and the profitability of reselling the NBN is perilously slim. And we know this is a situation shared by other RSPs. This is not sustainable. If RSPs cannot make a sustainable return on their investments, there will be little incentive to compete and invest in the delivery of high-speed NBN broadband services to end users. Without some sort of

¹ <https://www.accc.gov.au/regulated-infrastructure/communications/national-broadband-network-nbn/nbn-wholesale-market-indicators-report>



long-term change leading to improvement in RSP economics, the risk of retail price increases, reduced customer experience or customers moving onto other networks such as 5G will increase.

04 NBN Co wholesale pricing for Australia's future – what needs to change

Telstra continues to put to the ACCC and to NBN Co directly more ambitious changes than those envisaged. This is necessary to improve outcomes for customers, encourage more efficient use of the NBN, deliver better socio-economic outcomes, and promote competition by making pricing more predictable and viable for RSPs. The more ambitious plan proposed by Telstra would address the following industry issues:

- Growth and sustainability: Moving away from the current charging structure of taxing usage through the CVC charge will improve utilisation and take-up on the NBN. Without this, the risk of retail price increases, reduced customer experience and substitution to alternative networks will threaten the economics of the NBN. Similarly, a focus on the 50/20 Mbps speed tier in seeking to ensure affordable entry level broadband for Australian consumers rather than using the 12/1 Mbps service as an anchor service will lead to better customer experiences of the NBN and increased take-up of higher speed tiers beyond 50 Mbps, sustaining the industry growth and socio-economic benefits needed to secure Australia's digital future.
- Certainty: the current arrangements for RSP access to NBN Co services involve an immense imbalance in bargaining power and ongoing uncertainty associated with the commercial negotiations. The issuing of an Access Determination by the ACCC on the matters covered by its recent inquiries into NBN access pricing and service standards would establish an important regulatory baseline for future negotiations. It would also establish the beginnings of a regulatory framework fit for purpose for NBN Co's next phase of post-rollout operations, reducing regulatory risk and providing predictability in the long term.
- Supporting Australia's vulnerable: NBN voice-only services remain a vital means of contact for some of the most vulnerable members of the community, particularly in the current environment. While Telstra continues to prioritise affordable access to voice-only services for our customers, the unsustainable margins we currently face on NBN voice-only services put the long-term interests of customers who value these services at serious risk. There remains a pressing need for a bespoke voice-only wholesale service, priced at \$10 per month. An affordable voice-only service also needs to be accompanied by permanent targeted low-income wholesale broadband offers. While Telstra appreciates NBN Co's recent temporary discounts, they do not provide the wholesale price certainty needed for RSPs to construct sustainable long term offers for low income and other vulnerable customers.

We respectfully ask the Committee to consider these matters in its inquiry, in the interests of ensuring the NBN delivers on its full potential to support the recovery of Australia's COVID-19 economy and enable Australia and Australians to prosper in this new digital age.