



29 March 2018

Committee Secretary  
Joint Standing Committee on the National Broadband Network  
PO Box 6100  
Parliament House  
Canberra ACT 2600

By Email: nbn.joint@aph.gov.au

Dear Committee Secretary,

**Inquiry into the business case for the National Broadband Network (NBN)**

Vodafone Hutchison Australia (VHA) welcomes the opportunity to contribute to the Joint Standing Committee's deliberations.

The NBN is being deployed at scale with more than 7.1 million premises across the country now able to order a service. As the NBN increasingly shifts to an operational focus, it is critical that the right policy settings are in place to ensure the NBN can deliver its true potential as an enabler of long-term social and economic growth and productivity. This is particularly important given the increasing demand for broadband services and the ongoing convergence of fixed line and mobile technologies to meet the ever changing needs of consumers.

The next two years will see the completion of the NBN and the early phase of deployment of 5G mobile services in Australia. This has implications for policy-makers who should enable the NBN to evolve and compete in this rapidly changing market to help support the NBN's business case. VHA believes that greater competition from these new technologies is likely to lead to positive outcomes for consumers. We agree with the ACCC<sup>1</sup> that regulation should not constrain competition with the NBN and that the NBN requires the flexibility to respond to these developments.

The main areas where policy-makers can assist competition is through reforms to NBN's wholesale pricing and by opening up access to NBN infrastructure and spectrum holdings. There must also be careful consideration given to the competition implications of proposed subsidy arrangements for NBN's loss-making services.

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<sup>1</sup> ACCC Communications Sector Market Study, proposed recommendation 21.



In April 2017, VHA provided a submission to the Joint Standing Committee's inquiry into the rollout of the NBN. In our submission, we outlined what we believe are the key issues to be addressed in order to ensure the future success of the NBN. These include:

- Reforming NBN's wholesale pricing model to encourage increased customer take-up and experience, especially in relation to performance and speed;
- Identifying further opportunities to maximise the value of taxpayers' investment in the NBN via access to NBN infrastructure, thereby opening up new revenue streams; and
- Ensuring the NBN and associated policies do not unintentionally introduce barriers to efficiency, investment and competition, given the NBN's goal to promote competition in downstream markets.

### **NBN's wholesale pricing model**

As we noted in our previous submission to the Joint Standing Committee, the biggest challenge currently facing the NBN's business case and the take up of services is NBN's wholesale pricing arrangements. NBN's pricing needs to allow it to achieve an appropriate level of revenue to make a return on its significant investment whilst not constraining the potential of the NBN for end-users.

VHA welcomes the NBN's proposed new pricing arrangements and believe these changes will improve the economics of its faster speed plans. By bundling AVC and some CVC, the proposed pricing restructure will remove a lot of the risk for RSPs around the faster speed tiers. Following the NBN's recently announced price changes we have restructured our pricing and, as a result, we are experiencing increased demand for faster speed tier plans, with around 70 percent of our customers now choosing the 50Mbps plan.

While the NBN's proposed new pricing arrangements are positive, we encourage the NBN to continue refining its pricing model. For example, the price of the 100Mbps product is still too high which will soon recreate the problems that were blocking the uptake of the 50Mbps product. Most importantly, to ensure that the new pricing arrangements are sustainable for the medium term, there should also be transparent mechanisms put in place to ensure ongoing increases in the CVC allocation included in NBN's bundled offers.

### **Access to NBN infrastructure**

VHA believes policy-makers must identify further synergies and opportunities to maximise the benefit of taxpayers' significant investment in the NBN. This can also help reduce the pressure on the NBN to maximise returns through its wholesale pricing arrangements. In our



previous submission, we discussed the opportunities for increased fixed wireless tower sharing, by designing towers that can more easily accommodate the co-location of mobile equipment. We are pleased the Committee has supported this recommendation in its report.

Another area in which the NBN can play a greater role is improving access to its backhaul (transmission) infrastructure for mobile base stations, particularly in regional areas. The completion of the NBN will deliver a comprehensive fibre network across Australia which can be used to connect mobile base stations, leading to lower infrastructure costs for mobile operators and increased revenues for the NBN.

VHA worked closely with the NBN to help deliver its NBN Cell Site Access Service (CSAS) which now provides backhaul to some of our regional sites. There is scope to make further improvements to this service which is only available in certain areas and is currently priced at a level that it is not necessarily more advantageous than procuring the regulated transmission service from competing providers. Further, CSAS is not suited for small cells, which are low capacity sites requiring minimal bandwidth. As the convergence of fixed and mobile broadband technologies continues with the future rollout of 5G services, the provision of a NBN backhaul service for small cells is another potential revenue opportunity for the NBN.

### **Competitive neutrality and the promotion of competition**

As a Government Business Entity which is currently required to ensure that its wholesale prices recover its full costs, whether efficiently incurred or not, there may be an incentive for policy-makers to constrain competition with the NBN. A clear example of this, which we highlighted in our previous submission, is the Regional Broadband Scheme (RBS) which, if implemented, is effectively a new tax of ~\$400 million each year on the customers of other fixed line providers of broadband services, rising to \$814 million each year by 2022.

The RBS has been conceived to fund the long term costs of the NBN's satellite and fixed wireless networks. Rather than introduce this new large subsidy scheme however, we believe the Government's proposed reforms to the Universal Service Obligation (USO), involving the introduction of a Universal Service Guarantee, is the logical mechanism to achieve this objective. The USO includes \$100 million of direct taxpayers' funds every year, for Telstra's copper wire and payphones network, which could be re-directed to the NBN as the statutory infrastructure provider of voice and broadband services nationally. The ACCC has questioned the suitability of the RBS as a mechanism to fund NBN's non-commercial services. The ACCC's preference is for direct budget funding as it would be the least



distortionary alternative and not serve as a means of protecting the NBN from network competition<sup>2</sup>.

As outlined in our previous submission, caution is also required with the allocation of scarce resources to the NBN, especially spectrum. In 2014, 75 MHz of the 3.4 - 3.7 GHz spectrum band was set aside nationally for NBN's fixed wireless services. This included metropolitan areas where there is no plan for the NBN to roll out fixed wireless services. This spectrum band is the only internationally-aligned 5G band which is likely to be available in Australia and is likely to be highly sought after, with the ACMA proposing an auction of 125 MHz of 5G spectrum in this band later this year. Unfortunately, this is simply not enough spectrum to meet the 5G needs of Australia.

Further, the total price of \$43 million to be paid by NBN should it wish to use this spectrum is significantly below the price paid by NBN and mobile network operators at recent auctions for similar spectrum. As there is no logical reason for the NBN to utilise this spectrum, it should be put to market with the potential to generate up to \$2.2 billion in revenue for government. These proceeds could then be used by the NBN to extend its FTTP footprint for example. Alternatively, NBN could be required to enter into spectrum sharing arrangements with mobile network operators on an equitable basis.

In conclusion, we believe the NBN is at a critical juncture with the forecast completion of the NBN and the early phase of deployment of 5G mobile services in Australia in 2019. As the convergence of fixed line and mobile technologies continues in order to meet the needs of consumers, policy-makers must ensure the NBN can evolve and compete in this rapidly changing market to help support the NBN's business case.

VHA would be happy to provide further information and discuss any of the matters contained in this submission with the Committee. Please contact VHA's Head of Public Policy, Tim McPhail

Yours faithfully

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Vodafone Hutchison Australia

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<sup>2</sup> ACCC Communications Sector Market Study, proposed recommendation 29.