

Senate Estimates on the National Broadband Network

Answers to Questions on Notice

Public Hearing 20 November 2014

Communications Portfolio

Department of Communications

Question No: 222

Program No. NBN Co

Hansard Ref: In writing

Topic: CBA – Page 108

Senator Urquhart asked:

The Cost Benefit Analysis states (page 108) that it used NBN Co take up data from December 2013, providing a pool of approximately 80,000 households on NBN fibre. The Cost Benefit Analysis states that “this reflects a relatively small number of customers.” The Choice modelling project used a sample of 3,312 people (page 166). The Cost Benefit Analysis was finalised in August 2014. By end July 2014, the panel had access to approximately 160,000 households on NBN fibre.

- (a) Why did the Cost Benefit Analysis panel rely on NBN Co take up data from December 2013, when it had access to a much greater sample?
- (b) Why did the Cost Benefit Analysis panel rely on Communications Chambers, a small Choice modelling sample partly informed by Communications Chambers information, and a limited sample of households on NBN fibre, instead of the substantial sample of households on the NBN demonstrating *actual* willingness to pay?

Answered by the Department of Communications (Program 1.1):

- (a) This was the information available when the model was developed. The information used for the Cost-Benefit Analysis had 23 per cent of customers on the 100/40 Mbps plan as of December 2013. In comparison, the NBN Co Annual report indicates 20 per cent of customers to June 2014 having chosen a 100/40 Mbps plan. The NBN Co Annual Report notes (p 28) indicates that “The average speed ordered and provisioned across all fibre End-Users was 36 Mbps, a slight decrease of 3 Mbps since 30 June 2013.” This may suggest the results in the CBA slightly overstate the consumer valuation using the uptake data available at the time.
- (b) As noted on page 61 of the CBA, the CBA used all three methods for determining willingness to pay, including a rigorous bottom up approach to forecast per household demand, a statistically representative survey of householder consumers and update data available when the model was developed.

The use of uptake data to date for NBN Co plans has the advantage of reflecting actual decisions made by RSPs and households. However:

- the sample of households making choices is not necessarily representative because the NBN has been rolled out in specific areas and there are timing differences as to when choices are made to join NBN Co.
- The RSP providing the majority of NBN services to date also automatically chooses a 25/5 plan for households by default. Households can then make a

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subsequent choice to get a speed boost to this. This may distort data in the short term.

- The NBN Co uptake data also does not reveal anything about the valuation from current internet speeds to the minimum speed offered by NBN Co. Rather it reveals information between alternative NBN Co plans.
- Finally, revealed preference data for NBN Co to date cannot reveal the valuation for households taking up the fastest plan. For example, if a household chooses a 100/40 Mbps plan that costs \$10 more than a 50/20 plan, then this means their minimum valuation of the additional speed is \$10. However, the actual valuation is not known solely from revealed preference data.

In terms of the impacts on results, using take up date suggests a *lower* valuation for additional download and upload speeds than using either the choice modelling survey or the bandwidth demand methods.

The panel has taken a methodical and rigorous approach that has drawn from numerous reports and sources to provide independent advice. The panel consulted on the Analytical Framework in May 2014 and appointed specialist advisers to assist the panel's work in a number of areas. The panel also commissioned expert advice and submitted the work for peer review by Australian and international specialists.