

**Supplementary Submission to NBN Non-Commercial Service Funding Options**

**July 10 2015**

The CCC wishes to provide this short supplementary submission to respond to the model that NBN Co has put forward to fund its loss making fixed wireless and satellite services. We note that Optus and Vodafone have reviewed this submission and support the views expressed.

NBN quite correctly identifies the policy challenges of delivering equitable and economically efficient broadband services to all Australians.

However, we fundamentally disagree with NBN’s suggestion that a USO-style funding regime for the NBN should operate in parallel with the now completely redundant voice-only Universal Service regime. Further, we note the clear inconsistency in NBN’s argument that mobile services are substitutable and should contribute to a non-commercial services levy. If mobile networks are substitutable there can be no non-commercial areas, as mobile networks already serve these areas.

Indeed, the primary ‘competitor’ in regional areas is Telstra’s (admittedly inferior) copper network. We are currently in the absurd situation where, rather than Telstra making a contribution to the NBN for non-commercial fixed wireless and satellite services, Telstra is actually being *paid* by the industry and taxpayers to keep the redundant copper network operational. A subsidy to fund non-commercial infrastructure to compete against NBN’s non-commercial network is a ludicrous policy situation.

We believe that NBN will reshape the way services in regional Australia are delivered. With this change, current policy frameworks must change. In doing so there is a substantial opportunity to reform the currently wasteful USO scheme and ensure improved funding for delivery of modern telecommunications services for consumers in uneconomic areas in a way that delivers a level competitive playing field.

We note that NBN agrees that a review of the current USO arrangements is warranted. Indeed they submit:

That [USO] review should consider whether the USO is still required given that in the NBN environment the obligation for Telstra would solely be a retail obligation. Where Telstra fulfils its obligation using the NBN, it is likely that any losses incurred are significantly less than what is currently reflected in the USO levy.[[1]](#footnote-1)

We agree with NBN’s view on this point. However we are perplexed with NBN’s suggestion (ostensibly on ‘transparency’ grounds) that the NBN specific non-commercial funding should effectively operate in parallel to the existing USO scheme.

NBN makes the argument for the burden of a new cross subsidy scheme at a time it has become clear the USO itself is in desperate need of fundamental review. There is a strong argument for comprehensive restructuring of the USO scheme and that the NBN, as a universal infrastructure provider, provides an appropriate platform for delivering a new, modern USO. It is therefore crucial that USO reform be part of the move to a sustainable funding arrangement for non-commercial NBN infrastructure.

NBN’s proposed model is so broad it would have the effect of duplicating the USO levy. This would result in more red tape for the industry and require industry and taxpayers to continue fund redundant incumbent infrastructure. This is wasteful, costly and unnecessary.

The funding of NBN’s uneconomic infrastructure cannot be a new regulatory edifice beholden to NBN and its self-determined objectives. All this will do is perpetuate the mistakes of the past. The main objective should be to deliver essential uneconomic services in a way that does not distort competition. There is merit in the BCR considering whether an alternate NBN cross subsidy solution should proceed in advance of broader reform of the USO.

The other issue that NBN is silent on in their proposal is the fact that if there is to be cross-subsidy levy mechanism (i.e. new revenue stream) for uneconomic NBN services, NBN’s existing access prices should be reduced as they currently include the cross-subsidy. The BCR must examine how this would reduce NBN’s pricing of their unsubsidised services. Reducing overall NBN prices is the crucial ‘win’ for NBN, consumers and competition and must be part of the BCR’s definition of success. Failure to make such an adjustment to NBN Co’s existing access charges (which include the cross-subsidy) will lead to double cost recovery and increased prices for consumers.

The BCR must provide guidance on how this benefit is realised.

1. NBN Co BCR submission, page 20 [↑](#footnote-ref-1)