

Public



Funding of Universal Telecommunications Services

Submission of NBN Co

30 May 2024

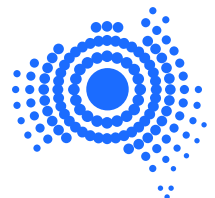


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1 Executive summary

- **nbn** welcomes the opportunity to respond to the discussion paper released by the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (**Department**) regarding *Funding of universal telecommunications services (Funding Paper)*.
- In a modern economy and a globally connected world, it is critically important that all Australians have access to baseline connectivity, and there is an ongoing role for government to ensure this connectivity is universally available. As a consequence, the policy rationale underlying existing funding arrangements for non-commercial and public interest telecommunications services – the Regional Broadband Scheme (**RBS**) and the Telecommunications Industry Levy (**TIL**) – will continue into the future.
- The RBS establishes an ongoing funding arrangement in relation to **nbn**'s fixed-wireless and satellite networks, that make high-speed broadband services available to nearly 1.1 million premises across Australia. As the default Statutory Infrastructure Provider (**SIP**) it is essential that **nbn** has sustainable funding to enable it to recover its costs and continue to maintain and upgrade these uncommercial networks, to provide regional Australia with broadband services that enable all Australians to participate in the digital economy.
- Significant changes in the Australian telecommunications market – due to advances in technology and availability, as well as evolving consumer behaviours and preferences – mean that adjustments to the current funding arrangements are not just opportune, they are increasingly vital to ensure these arrangements continue to meet their underlying purpose and do so in a manner consistent with sound principles of economics and public policy.
- Against that background, **nbn** strongly supports reform of current funding arrangements for non-commercial and public interest telecommunications services. In our view, changes are needed both in the shorter-term to update current funding arrangements for **nbn**'s non-commercial services, and in the longer-term to reflect the eventual outcomes of broader universal service reform currently being considered by Government.
- Any reform of funding arrangements for universal telecommunications services should be guided by sound principles of economics and public policy. While **nbn** supports the principles the Department has identified in the Funding Paper, we encourage the Department to have regard to a number of other important principles as well, including economic efficiency, equity / fairness, competitive neutrality, and simplicity of administration.

1.1 It is essential to sustainably fund nbn's fixed wireless and satellite networks

nbn's fixed wireless and satellite networks are essential to address the broadband access disadvantage historically experienced by regional Australia. These networks improve social, education and health outcomes for regional Australians and better enable them to participate



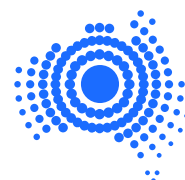
in the digital economy. Recent economic research from Accenture estimated that a faster, higher capacity **nbn**[®] network will improve productivity, employment and new business starts. It found that for every one megabit per second increase in average broadband speed, Australia's productivity-driven GDP increased by 0.04 per cent, on average, in the period from 2012 to 2022. The research also found that the economic impact derived from increases in average broadband speeds were 16 times greater in remote areas of Australia and twice as profound in regional areas relative to the impact in major cities.¹

These substantial benefits come at a high cost. The total loss incurred by **nbn** on its fixed wireless and satellite networks has been estimated to be \$9.8 billion (net present value) over 30 years between financial years 2010 and 2040. The RBS was established to provide a sustainable funding mechanism for these losses, so that **nbn** can continue to deliver the benefits of high-speed broadband to regional Australia in the future. It is essential **nbn** continues to have access to sustainable funding for its fixed-wireless and satellite networks.

1.2 Immediate changes to the RBS are justified

- In the short-term, updates to the RBS are needed to expand the charge base beyond providers of superfast fixed-line broadband services.
- The original principle behind the establishment of the RBS – ensuring sustainable and equitable ongoing funding of **nbn**'s non-commercial fixed wireless and satellite networks – remains critical. However, as a result of rapid changes in technology and consumer preferences, the RBS as implemented does not deliver the outcomes intended, and is no longer operating consistently with sound economic principles.
- In particular, 4G/5G fixed wireless services are directly competing with fixed line broadband services, but they do not currently contribute to meeting the cost of **nbn**'s non-commercial services, which means the RBS is not economically efficient or competitively neutral, nor is it sustainable or flexible:
 - [CIC] [CIC]
- The inclusion of 4G/5G fixed wireless services in the RBS charge base will achieve several positive impacts, including improving the equity, sustainability and efficiency of the RBS levy by reducing the funding burden on fixed-line contributors and end-users, spreading the total funding requirement over a larger charge base, lessening market distortions arising from the current narrow charge base, and reducing the per premises levy amount.
- Including 4G/5G fixed wireless networks in the RBS charge base at this time is a pragmatic approach which will improve the efficiency of the scheme in the short term. However, for

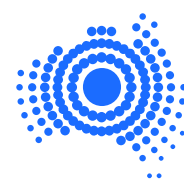
¹ Accenture Economic and Social Impact Report 2024, (<https://www.nbnco.com.au/content/dam/nbn/documents/about-nbn/reports/reports-and-publications/accenture-2024-economic-and-social-impact-insight-report.pdf.coredownload.pdf>)



the reasons explored below, the most equitable and efficient approach would be to broaden the charge base to be technology neutral. For that reason, **nbn** recommends that any longer-term future funding arrangement to support universal service reform must, at a minimum, include all carriers and carriage service providers (**CSPs**) in the charge base for any future industry levy, including mobile and satellite providers.

1.3 Longer-term reform of universal service funding is also necessary

- In the longer-term, and in the context of the Government’s broader consultation process into universal service reform, there is a need to consolidate existing funding arrangements and replace them with a new, single funding mechanism to support a modernised universal service framework.
- Importantly, any new and consolidated funding mechanism would need to continue to fund the sustainable operation of non-commercial networks, including net losses associated with **nbn**’s fixed wireless and satellite networks currently funded through the RBS. Other funding requirements will depend on the outcome of the Government’s universal service review and the nature of any revised or new obligations developed as part of that review. But there must be an overarching principle that any additional non-commercial obligations imposed on the provider/s of baseline services will need to be appropriately funded.
- As discussed in detail in **nbn**’s submission to the Department’s discussion paper titled *Better delivery of universal services (Universal Services Paper)*, **nbn**’s proposal for a revised universal service framework is that there would be a single service obligation covering baseline voice and broadband connectivity across the country, based on the existing SIP regime, with appropriate amendments in the satellite footprint to accommodate third-party Low Earth Orbit (**LEO**) satellites once capability is proven and appropriate technical, commercial and security arrangements are put in place. This would be supported by modern consumer protections which are much more targeted to vulnerable customer cohorts than existing protections linked to the provision of a standard telephone service (**STS**), made possible now because the vast majority of customers have access to multiple networks to ensure continuity of connectivity.
- Assuming universal service reform consistent with this suggested path forward:
 - At a high level, we expect long-term funding arrangements to support a revised universal service and consumer protection framework would need to cover at least the following: one-off migration costs to newer technologies outside **nbn**’s fixed-line footprint; the sustainable operation of non-commercial networks; and the delivery of targeted consumer protections to support vulnerable customer cohorts.
 - In addition, other connectivity initiatives could also potentially be funded from a reworked universal service funding arrangement, or from other sources, e.g. **[CIC]**



[CIC] expansion of terrestrial access technologies into regional, rural and remote areas, and alternative delivery models to support community connectivity for First Nations communities.

- There are a number of ways a new / consolidated funding mechanism could be designed, taking into account key principles and characteristics for a long-term funding model. One possible model for an industry fund could include:
 - the establishment of a single industry fund (to replace the RBS and TIL) with a broad, technology-neutral funding base;
 - funding contributions to be collected based on a small set percentage of eligible revenue payable by all carriers and CSPs;
 - a built-in requirement for periodic review of the funding percentage and funding base; and
 - funding of net losses to be distributed based on actual costs of delivering non-commercial services to meet universal service and consumer protection obligations, based on an agreed calculation approach including any applicable discount rate.

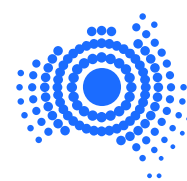
2 Introduction

The Funding Paper forms part of a broader consultation process currently being conducted by the Government, which commenced in October 2023 with the release of the Universal Services Paper. The aim of the broader consultation is to consider options to improve delivery of universal telecommunications services, particularly for consumers in regional, rural and remote Australia, and to seek stakeholder views on the funding arrangements underpinning the delivery of universal services.

Universal access to baseline telecommunications services has been, and will continue to be, an important policy objective in Australia. Now more than ever, digital connectivity is essential to so many aspects of the way we work, shop, engage with friends, family and community, and access entertainment and essential services.

Over the years, regulatory frameworks and funding arrangements have been put in place with the aim of ensuring all Australians are able to access voice and broadband services at their premises, including in regional, rural and remote parts of the country which may be non-commercial to serve.

However, as highlighted by Figure 1 in the Department's Funding Paper, the current funding landscape has become highly complex, duplicative, and out-of-step with the evolution of technology, consumer behaviours and preferences, and the telecommunications market more broadly. Indeed, the complexity likely reflects the rapid pace at which technology and consumer behaviours and preferences have evolved, and the challenges of keeping policy initiatives and funding arrangements fit-for-purpose in an ever-changing environment.

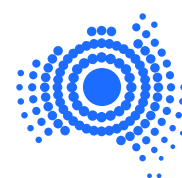


In this context, **nbn** supports the Government’s focus on reforming universal service policy and regulation and associated funding arrangements to improve outcomes for all Australians, and we recognise the important role **nbn** currently plays and will continue to play. Reform must be guided by well-established principles of economics and public policy. **nbn** agrees with the principles of a sustainable long-term funding model identified by the Department in the Funding Paper. In addition, **nbn** considers there are some further principles to which regard must be had.

Table 1 below sets out and briefly describes each of the principles. Section 5 provides a more detailed discussion.

Table 1: Principles of a sustainable long-term funding model

Principle	Description
Sustainability	The funding arrangements should be tied to a charge base that is able to provide the necessary funding over time and will not be rapidly eroded by changing consumer preferences and the emergence of new technologies.
Certainty	Adequate certainty should be provided to both recipients of funds and contributors of funds to promote efficient investment in infrastructure and service delivery. This involves certainty of the obligations to be met / services to be provided, the costs that will be funded, and the duration / continuation of funding support.
Transparency	There should be transparency over how the required level of funding is determined, relative contributions to funding, and how funds received are used. This will enable the costs and benefits of the relevant obligations and associated funding arrangements to be appropriately assessed and verified.
Flexibility	The arrangements need to be adaptable to technology and market changes, including evolving consumer behaviour and preferences. Flexibility relates to both the source of funding and allocation of funds. In general, technology neutrality will promote flexibility. Regular review processes can also support the promotion of flexibility.
Competitive neutrality	To the extent possible, the arrangements should not give rise to advantages (or disadvantages) for some market participants over others.
Administrative simplicity	A funding arrangement that is complex to administer, monitor and implement will give rise to inefficiencies and transaction costs for industry and government. In the extreme, these costs could begin to outweigh the benefits of the arrangements.
Economic efficiency	Funding arrangements should be assessed by whether they support or constrain productive, allocative and dynamic efficiency. For example, the arrangements should: minimise any distortions to incentives to deliver services at the lowest possible cost; minimise the extent to which resources are diverted away from more highly valued uses; and minimise any disincentive to providers investing in and innovating their service delivery approach.
Equity / fairness	Consideration should be given to how any funding arrangement will fall across society. Equitable outcomes for beneficiaries and funders of fixed wireless and satellite services should also be considered.
Consistency with wider regulatory framework	The design of the funding arrangement will need to consider potential interactions or conflict with other regulatory requirements and policy objectives.



There will inevitably be trade-offs between these principles. For example, a funding model that is highly transparent may lack administrative simplicity; a funding model that is extremely flexible may lack adequate certainty. Importantly, while there are trade-offs between these principles, and such trade-offs involve difficult decisions, the worst outcome would be for reform not to happen, leading to further market distortions and inefficiencies.

It is important that reform to the universal service and funding frameworks is undertaken in a holistic manner. However, this does not mean immediate changes to the RBS arrangements should not be made at this time. In fact, immediate RBS reform can be undertaken on a “no regrets” basis and, by ensuring this reform is consistent with the identified principles, it will move industry closer to the longer-term reform that is required.

If the Government does not seize this opportunity to enhance the RBS arrangements and bring them closer into alignment with the original policy intent and guiding principles, there will be adverse consequences not just for **nbn**, but for all operators of fixed-line networks and their customers, and for the industry as a whole, as investment incentives and customer choices will continue to be distorted.

Specifically:

- In the short-term, the RBS charge base should be expanded to include fixed wireless network operators supplying services to premises within a fixed-line footprint. This change could be implemented immediately and will improve the sustainability and competitive neutrality of the RBS levy by spreading the total funding requirement over a larger charge base of premises.
- In the longer-term, and in the context of the Government’s work towards broader universal service reform, **nbn** believes the existing funding arrangements (the TIL and RBS) can be consolidated and replaced with a new mechanism to support the sustainable operation of non-commercial networks and the delivery of targeted protections for vulnerable Australians. A new funding mechanism may also provide flexibility to fund alternative delivery models where required, including community connectivity for First Nations communities.

3 Immediate changes to the RBS are justified

The RBS must be reformed immediately, to include 4G/5G fixed wireless services within the charge base.² Importantly, these RBS reforms are necessary now, independent of any broader universal service reforms which may take place in the coming years in response to the

² Consideration may need to be given to the treatment of high-capacity mobile plans that are comparable to 4G/5G fixed wireless plans (e.g. 180GB+ mobile plans), as there is a risk some providers may promote alternative mobile products potentially reducing the RBS levy payable. In the longer-term, this issue is best addressed by moving to a fully technology-neutral levy, discussed in more detail below.



Government’s current review of universal services. The existing technology-specific charge base is creating market distortions that may have long-term consequences if left unaddressed.

3.1 Contextualising the RBS

The original vision of the **nbn** was a national network, singularly owned, capable of providing services at nationally averaged prices reflecting internal cross subsidisation-. To this end, at the commencement of its build phase, **nbn** was required to “*design, build and operate a new [network] to provide access to high-speed broadband to all Australian premises*”,³ which included the 8% of premises to be served by the noncommercial- fixed wireless and satellite networks. This expectation was made binding through the passage of the SIP legislation in 2020.⁴

The total loss incurred by **nbn** on its fixed wireless and satellite networks has been estimated to be \$9.8 billion (net present value) over 30 years between financial years 2010 and 2040. These losses were originally expected to be funded through an implicit cross-subsidy from **nbn**’s profitable fixed-line services. That is, it was expected that customers on **nbn**’s profitable fixed-line network would bear the full cost of funding the losses of the fixed wireless and satellite services through the prices their retailers are charged.

However, **nbn** was originally expected to be an effective monopoly.⁵ As the communications market evolved, competitors emerged whose offerings necessarily erode **nbn**’s long-term capacity to internally cross-subsidise from profitable areas its losses from the non-commercial parts of its network. The Government recognised that the method of funding non-commercial services via internal cross-subsidy was potentially misaligned with the reality of competition for high-speed broadband infrastructure in profitable areas.

In 2013, the Government commissioned the Vertigan Review to consider funding arrangements for **nbn** fixed wireless and satellite services.⁶ The Government’s policy response was to introduce a new funding arrangement,⁷ which led to the development of the RBS, based on striking a balance between the objectives of promoting efficient infrastructure-based competition and providing **nbn** and other stakeholders with confidence that the ongoing funding of non-commercial services would be placed on a sustainable and equitable footing.

The Bureau of Communications Research (**BCR**) recommended a funding arrangement that would involve the introduction of an industry levy to fund non-commercial fixed wireless and satellite broadband for regional areas. The recommended funding approach for the RBS was

³ NBN Co, Statement of Expectations, December 2010, page 1.

⁴ Part 19 of the *Telecommunications Act 1997* (Cth).

⁵ Explanatory Memorandum, *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*, page 8.

⁶ The Independent Cost-Benefit Analysis of Broadband and Review of Regulation.

⁷ Explanatory Memorandum, *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*, page 6.



intended to achieve “... level playing field contestability objectives, with **nbn** and competing network operators equally sharing the burden of funding non-commercial services”.⁸

As recommended by BCR, the RBS is intended to make cross-subsidisation of regional networks more transparent and spread it across all “**nbn**-comparable” networks. At the time it was enacted, “**nbn**-comparable” networks were considered to be other superfast fixed-line networks. To that end, the RBS currently requires carriers to contribute an amount (\$7.9732 for FY23, and indexed each year) per month for each premises on their network to which a broadband service is provided using a local access line capable of delivering at least 25Mbps (**chargeable premises**). This is different from the TIL, which is a broad industry levy contributed to by all carriers with eligible revenue in excess of \$25 million.

For FY23, **nbn** contributed approximately \$777.6 million, and other carriers contributed just \$25.3 million, to the RBS.

While “**nbn**-comparable” networks were initially considered to be high-speed fixed-line networks capable of delivering download speeds of at least 25Mbps, it was recognised that mobile / wireless services could become substitutes for fixed-line services in the future.⁹ The legislation therefore included a requirement for a statutory review of the RBS by the Department within four years of commencement of the scheme, to consider whether providers of additional services should contribute towards the RBS in the future.

3.2 4G/5G fixed wireless broadband is comparable to nbn fixed-line services

The current RBS charge base is too narrow and does not reflect the reality of the wide range of networks to which consumers are switching as alternatives to the **nbn** (and hence those that should be supporting the funding of non-commercial services).

The extension of the RBS charge base to the whole of the telecommunications market was considered as part of BCR’s March 2016 report.¹⁰ It was noted that, under an industry wide contribution option, the number of firms contributing to the funding mechanism would increase, reducing the amount on a per line basis. However, BCR considered that applying a levy to networks offering “**nbn** comparable” services was the most appropriate charge base.

At that time, the view was that consumers did not treat non-fixed-line broadband services as close substitutes to high-speed fixed-line broadband services. Reliance was placed on the ACCC’s 2015 Superfast Broadband Access Service (**SBAS**) declaration inquiry final report, which concluded that while mobile broadband may be a substitute for high-speed broadband

⁸ Department of Communications and the Arts, Bureau of Communications Research, *NBN non-commercial services funding options*, Final Report, March 2016, page 5.

⁹ Explanatory Memorandum, *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*, page 29.

¹⁰ Department of Communications and the Arts, Bureau of Communications Research, *NBN non-commercial services funding options*, Final Report, March 2016.



services for some customers, this was not generally the case at that time, given the disparity of pricing and capacity.¹¹ For example, the Explanatory Memorandum for the RBS Charge Bill indicated that, at that time, the cost of data on a per gigabyte basis was often around five times more expensive on mobile networks than on fixed-line networks.¹²

Changes in technology and consumer preferences over the last decade mean it is now clear that 4G/5G fixed wireless broadband services are substitutable for fixed-line services. As discussed in detail in **Error! Reference source not found.**:

- **[CIC] [CIC]**
- 4G/5G fixed wireless broadband offers have closed the gap (compared to retail offers on **nbn** fixed-line broadband) in terms of price, speed and data allowance. This was specifically noted by the ACCC in its most recent Communications Market Report, which states: *“The price, speed and data allowance of 5G home wireless plans is generally comparable with NBN fixed broadband plans. As such, 5G services in some areas are becoming increasingly attractive to consumers as an alternative to traditional fixed line services”*.¹³
- The ACCC goes on to present current MNO retail 5G fixed wireless broadband prices and speed offerings with unlimited downloads as at November 2023:¹⁴
 - **Telstra:**
 - \$85 a month for a typical evening download speed of 336 Mbps
 - **Optus:**
 - \$69 a month for a typical evening download speed of 45 Mbps
 - \$79 a month for a typical evening download speed of 87 Mbps
 - \$99 a month for a typical evening download speed of 240 Mbps
 - **TPG Telecom:**
 - \$65 a month for a typical evening download speed of 50 Mbps
 - \$70 a month for a typical evening download speed of 96 Mbps

These can be compared to equivalent **nbn** retail fixed broadband prices and speed offerings sampled by the ACCC in the same report¹⁵ to confirm the ACCC’s conclusion.

¹¹ Explanatory Memorandum, *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*, page 28.

¹² Explanatory Memorandum, *Telecommunications (Regional Broadband Scheme) Charge Bill 2019*, page 28.

¹³ ACCC, *Communications Market Report 2022-23*, December 2023, page 10.

¹⁴ ACCC, *Communications Market Report 2022-23*, December 2023, page 11.

¹⁵ ACCC, *Communications Market Report 2022-23*, December 2023, page v.



- Further, the proportion of 5G fixed wireless broadband plans that are reported to the ACCC as providing unlimited data to customers has increased from 44% in December 2021 to 78% of all plans offered as of June 2023.¹⁶
- [CIC] [CIC]

3.3 The RBS does not currently deliver the original intended principles

The original principle behind the establishment of the RBS – ensuring sustainable and equitable ongoing funding of the current and historic losses on **nbn**’s fixed wireless and satellite networks – remains crucial today and will continue under any revised universal service framework. However, as a result of the changes in technology and consumer preferences discussed above, the RBS as implemented does not deliver the outcomes intended. In particular, the RBS is not sustainable, is not flexible, is not equitable, and creates market distortions that result in economic inefficiency.

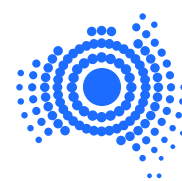
In the following table, we assess why the RBS is not currently delivering the principles the scheme was originally designed to achieve, and why expansion of the charge base to 4G/5G fixed wireless operators will assist in aligning the RBS with these principles.

Table 2: Principles of a sustainable long-term funding model – application to RBS

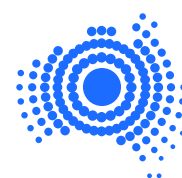
Principle	Current RBS application
Sustainability	<p>The RBS was specifically conceived to address concerns with the sustainability of relying solely on nbn cross-subsidisation from fixed-line services to fund non-commercial services, in an increasingly competitive market. However, the RBS was devised on a narrow and technology-specific basis and is already out-of-date and unsustainable as a solution.</p> <p>Today, both terrestrial 4G/5G networks and LEO satellite networks are widely available and compete directly for consumers that have in many cases previously relied on fixed-line networks for their primary broadband service.</p> <p>Our modelling indicates the RBS funding base will decline over time, resulting in:</p> <ul style="list-style-type: none"> • a reduction in the total amount raised by the levy, (noting the amount of the levy is capped at \$7.10 (plus indexing each year for inflation) per chargeable premises per month)¹⁷ resulting in a funding shortfall compared to the amount forecast by the ACCC; and

¹⁶ ACCC Internet Activity RKR, December 2023. Note the ACCC sources its data from a subset of the overall market.

¹⁷ *Telecommunications (Regional Broadband Scheme) Charge Act 2020* (Cth), section 17A, sets the “combined component cap” at \$7.10 for the first financial year, subject to an indexation factor for each subsequent year. This limits the total amount of the levy which may be raised (without legislative change to increase the cap).



Principle	Current RBS application
<p>Economic efficiency</p>	<ul style="list-style-type: none"> • an increase in nbn's percentage contribution to the total amount raised by the levy, with only a marginal contribution made by non-nbn fixed-line operators. <p>A reduction in the total amount raised by the RBS will lead to higher wholesale broadband prices over the long-term (and, in turn, higher retail prices for consumers) to enable nbn to recover its efficient costs. If the amount of the levy was increased to address the shortfall, this would be likely to only exacerbate the issue, by increasing the competitive advantage to wireless and mobile broadband providers.</p> <p>Where a funding model is based on industry as a source of funding, it is essential to ensure the applicable charge base is able to continue to provide the necessary funding over time and that the charge base will not be eroded by changing consumer preferences or the emergence of new technologies. This is exactly what has happened to the RBS.</p> <p>The current narrow charge base for the RBS places nbn and other fixed-line networks at a competitive disadvantage relative to 4G/5G fixed wireless broadband services, which are increasingly being viewed by consumers as attractive substitutes to fixed-line services. It also excludes mobile broadband and newly emerging competitors such as LEO satellite networks which do, and will increasingly in the future, compete with nbn services.</p> <p>From an economic efficiency perspective, it is important that substitutable goods / services face consistent regulatory obligations to the greatest extent possible. Asymmetric regulation distorts investment incentives and, as a result, adversely impacts economic efficiency, both in terms of the efficient use of existing network infrastructure and new investment in future infrastructure.</p> <p>If customers migrate their services from fixed-line operators to fixed wireless networks, then the funding base for the RBS will reduce over time, meaning the per-premises amount of the levy will need to increase over time. This will further erode the competitive position of fixed-line operators relative to fixed wireless networks.</p> <p>Additionally, the incentives for nbn and other fixed-line network operators to continue to invest in fixed-line networks will be reduced as 4G/5G fixed wireless providers, who will be operating at a lower cost base, can cherry-pick the most profitable customers.</p> <p>As fixed-line customer penetration rates drop in a particular area, the ability for nbn to continue to invest in the network in these areas will also be reduced.</p> <p>The narrow scope of the current charge base distorts efficient investment as it artificially inflates the cost of investment in fixed-line broadband networks relative to fixed wireless networks. In turn, this leads to higher prices for services provided over fixed-line networks, discouraging efficient use.</p>



Principle	Current RBS application
	Further, as outlined in more detail in section 6, a small amount of tax on a wider range of activities involves far less total “deadweight loss” than a larger amount of tax on a small group of activities. Therefore, the narrower scope of the current RBS charge base involves a higher level of distortion. Furthermore, given the size of the base is declining, the RBS levy is becoming increasingly inefficient over time.
Flexibility / technology neutrality	Because the charge base for the RBS has not been defined in a technology-neutral manner, the RBS lacks flexibility to evolve as the market changes. Given rapid changes in technology, this has resulted in failure to deliver an appropriate degree of flexibility in the face of evolving end-user preferences and infrastructure deployments. The result is a distortion of competition in the market and a lack of sustainability to the funding available for uncommercial services.
Equitability	<p>The current charge base makes consumers of fixed-line services ultimately responsible for supporting a social policy objective of universal service to premises in regional and rural Australia. From an equity perspective, imposing this obligation solely on consumers using a specific access technology is not equitable because all users of all broadband networks benefit from the positive externality that arises as a direct consequence of nbn’s provision of loss-making fixed wireless and satellite services, because it increases the availability of affordable high-speed broadband.</p> <p>Spreading the charge base would also reduce the amount of the contribution per user which improves equitability.</p>

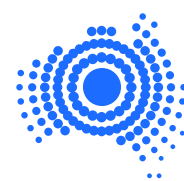
3.4 Recommended changes to the RBS – immediate expansion to include 4G/5G fixed wireless services

Under the current RBS, carriers are only required to pay the levy where they supply broadband services to premises over fixed-lines capable of delivering 25Mbps or higher.

For the reasons discussed above in sections 3.2 and 3.3 and in **Error! Reference source not found.**, the case is clear for expanding the RBS charge base to include providers of 4G/5G fixed wireless services to premises in a fixed-line footprint. These services are clearly substitutes for **nbn** fixed-line services, demonstrated by 4G/5G coverage and investment, fixed wireless offers **[CIC] [CIC]**, as well as consumer sentiment and purchasing decisions.

Expanding the charge base to capture providers of 4G/5G fixed wireless services to premises will achieve several positive impacts, including:

- improving the equity and sustainability of the RBS levy by spreading the funding burden across more contributors and end-users that benefit from the increased availability of affordable high-speed broadband connectivity; and

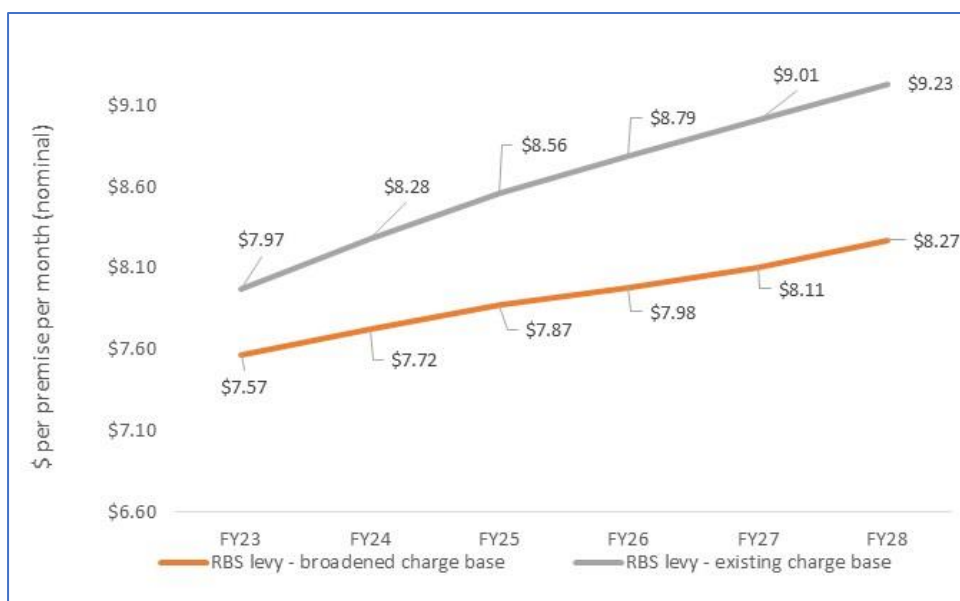


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- improving the efficiency of the levy by sharing the total funding requirement over a larger charge base and reducing the per premises levy amount, without increasing the total funding collected.

Figure A below shows, by way of example, the reduction to the per premises levy that could be achieved by adding 4G/5G fixed wireless to the charge base, to enable the same total funding to be collected between FY23 to FY28 as forecast by the ACCC.

Figure A: Impact on RBS levy of increasing charge base to include fixed wireless



Source: **nbn** modelling

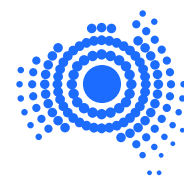
Note: Based on Venture Insights chargeable base forecasts

By contrast, without this expansion of the RBS charge base, **nbn** estimates that the financial impact on contributors and end-users will be a material market distortion in favour of wireless services.

[CIC] [CIC]

It is also worth noting the impact that not expanding the RBS charge base would have under **nbn**'s SAU. The amount of revenue that **nbn** is allowed to recover from its Core Regulated Services is an amount equal to its building block model costs for those services less net funds received under the RBS. Accordingly, lower RBS contributions in the future will mean **nbn** will need to recover a higher proportion of its building block costs directly through prices for Core Regulated Services. This could have two impacts:

- In the short-term, while **nbn**'s annual revenues are below its regulated costs (estimated to be up until FY31), if **nbn** receives lower net funds under the RBS, the extent to which it under-recovers its regulated costs will be greater, extending the time it takes to achieve cost recovery.



- In the longer-term, once **nbn** has achieved cost recovery, lower net funds received under the RBS may mean higher future prices for **nbn** wholesale services for **nbn** customers. Such an outcome would be the antithesis of wider Government policy which intended that, if **nbn** faced effective competition due to the availability of substitutable services, the losses arising from the provision of non-commercial services would be shared proportionally by the providers of those substitutable services.

While it may be argued that it would be preferable to leave existing arrangements in place and to adjust funding only once universal service reform is progressed, **nbn** considers that this would increase the risk that, during the intervening period, significant market distortion will occur with long-term consequences.

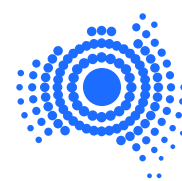
For the reasons explained in detail above, the narrow scope of the RBS charge base distorts efficient investment by artificially inflating the cost of investment in fixed-line broadband networks relative to fixed wireless networks, discourages efficient use of fixed-line networks and distorts competition in favour of fixed wireless networks, and ultimately reduces sustainability of the funding available. Allowing the RBS to continue in its current form until broader universal service reform takes place – which may take several years – will exacerbate these issues and lead to significant under-funding compared to ACCC estimates.

If the RBS is retained in the long-term, it would be necessary to reconsider whether “**nbn**-comparable” is the best way to define the services that should contribute towards the cost of building and maintaining non-commercial services. For the reasons explained above, rather than using a limited definition of the services that are substitutes for, or comparable to, an **nbn** fixed-line service, the original objective of the RBS would be better met through a broader, technology-agnostic approach that can keep pace with an evolving telecommunications market and ensure all relevant services form part of the charge base, allowing them to compete on an equal footing rather than in the distorted way the RBS operates at present.

In sections 4, 5 and 6 below, we explore these concepts in further detail as we discuss what a longer-term funding arrangement may look like in the context of broader universal service reform.

3.5 Additional matters raised in the Funding Paper regarding the RBS

nbn has provided additional views on chargeable premises and exemptions at **Error! Reference source not found..**



4 Long-term universal service and funding reform

4.1 nbn supports universal service and funding reform

Widespread access to high-speed broadband and voice services continues to be a critical enabler of economic growth. Australia must maintain some form of funding arrangements to support the provision of universal services well into the future.

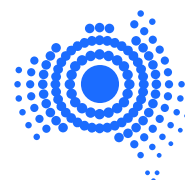
The time is right to set a path towards a new definition of universal service that will meet the needs of Australians for coming decades, and is supported by streamlined regulatory and funding arrangements. It is critical to consider how regional, rural and remote Australians are using their telecommunications services now and into the future, how they should best be served using modern technologies, what universal service delivery changes are required going forward, and what associated regulatory, policy and funding frameworks should be put in place to sustainably support these requirements well into the future.

nbn's view is that future universal service policy should have a single service obligation ensuring access to baseline broadband and voice for all Australian premises. The SIP regime goes a long way towards achieving this objective, and could be updated in future to accommodate LEO satellite-based services, which promise a pathway to improving baseline voice and broadband services for many Australians provided that appropriate technical, commercial, operational, pricing and security arrangements can be put in place.

A modern universal service framework needs to be supported by an equally modern consumer protection regime. Consumers now have access to a range of technology options including the **nbn** network and other fixed, mobile, GEO and LEO satellite networks. At the same time, legacy consumer protections linked to the provision of STS are no longer providing broad consumer protection and could be more appropriately targeted. For most consumers, access to multiple technology platforms (e.g. **nbn**, plus mobile or satellite) coupled with existing Wholesale Broadband Agreement (WBA) assurance mechanisms (and equivalent terms for non-**nbn** SIPs) will meet their connectivity needs. For customers with heightened needs (e.g. due to medical issues, or lack of network coverage or digital ability), new, targeted consumer protections could be established.

Taken together, these reforms will allow for the phased retirement of legacy technology, policy and regulation, and replacement with forward-looking technology-neutral solutions to ensure baseline connectivity is available to all Australian premises, supported by updated consumer protections. This will improve the delivery of connectivity for regional and remote Australians by using modern technology to provide better broadband and voice services than those supplied over legacy copper and other networks.

In turn, this will allow the streamlining and consolidation of existing funding arrangements to optimise funding structures and ensure they deliver for end-users. This will require a detailed consideration of the most appropriate way to fund the network provider/s responsible for



delivering baseline broadband and voice connectivity, including the non-commercial and social policy aspects of a revised universal service policy, as well as the specific needs of First Nations communities.

nbn accepts that reforms of the kind it has described above may take time to develop and implement, given the complexities and inter-dependencies involved. As noted in section 3, in the shorter-term, we believe the case is clear for expanding the RBS charge base to include 4G/5G fixed wireless network operators supplying services to premises in a fixed-line footprint. It is essential that making this change to the RBS is not delayed to coincide with the progress of the broader universal service funding reform agenda, which may take many years.

But it is critical that the funding reforms do not stop there, and that the Government seizes the opportunity now to start the process towards longer-term funding arrangements that support a modernised universal framework and other important connectivity initiatives.

4.2 What are the characteristics of services that should be funded?

The specifics of any funding model will need to follow on from the relevant universal service obligations that may be set. It is difficult to comment on future funding models in detail, in the absence of knowing the specific details of what universal service objectives will be set for the future and the regulatory / policy mechanisms that will be applied to achieve those objectives.

As a general proposition, the characteristics of services that should be funded as part of a future funding arrangement supporting universal services are:

- commercially loss-making services (including establishment / transition / upgrade costs as well as ongoing operating losses);
- provided at a particular price and/or quality, either:
 - universally; or
 - to a specific market segment (such as people with disability or life threatening health conditions, or people living in remote Indigenous communities);

in order to meet either regulatory obligations or contractual obligations with Government that have a universal service objective.
- where that service would not otherwise be provided universally; or to that specific market segment; or at that particular price or quality, on a commercial basis; and
- where the benefits to society of providing that service outweigh the costs.

The appropriate scope of a future modern universal service framework will need to be determined on the basis of an evaluation of the merits and costs of the range of policy options available to meet the Government's goals, having regard to the likely costs of meeting the



objective and the relevant value to society. The characteristics of what is funded in the future will therefore necessarily need to follow from those recalibrated universal service obligations.

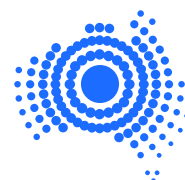
It is clear from the discussion above that **nbn** has – and recognises that it has – a key role to play in reform of Australia’s universal service framework, to continue to lift the digital capability of Australia. However, as an overarching principle, it is important that any parties who take on additional obligations as part of these reforms are appropriately funded to do so.

Assuming universal service reform consistent with **nbn**’s suggested path forward (as outlined above and described in more detail in **nbn**’s response to the Universal Services Paper), at a high level we expect long-term funding arrangements to support a revised universal service framework would need to cover at least the following:

- One-off migration costs to newer technologies outside **nbn**’s fixed-line footprint, including:
 - [CIC] [CIC]
- The sustainable operation of non-commercial networks and services, including:
 - The existing net costs associated with the construction and operation of **nbn**’s fixed wireless and SkyMuster networks, currently funded through the RBS.
 - **nbn** fixed wireless and satellite net costs to serve (to the extent not covered above). This may include subsidies to ensure price parity between LEO-based SIP services and baseline terrestrial services, on-the-ground service costs, particularly if **nbn** provides these over and above a relevant LEO-provider, and equipment / Network Termination Device (NTD) replacement required every ~7 years.
- Where necessary, the delivery of targeted consumer protections to ensure vulnerable Australians have access to redundant / second services so their connectivity is maintained and downtime minimised.

There are a range of other connectivity initiatives which would also require funding. This funding could potentially come from a reworked universal service funding arrangement, or from other sources. These other connectivity initiatives include:

- Flexibility to fund alternative delivery models where required (such as further expansion of fixed-line networks into regional, rural and remote communities), including community connectivity for First Nations communities.
- Expansion of terrestrial access technologies into regional, rural and remote areas. As the Department is aware, in partnership with Government, **nbn** is currently investing a further \$750 million in the fixed wireless network to enhance coverage and deliver faster speeds for regional Australia. By December 2024, this will boost the capacity of the fixed wireless network and expand its coverage area to include an additional 120,000 premises that were previously only able to access **nbn** services through the Sky Muster satellites.



Beyond this upgrade program, further expansion of **nbn**'s fixed wireless network into the satellite footprint is possible, including as part of an overhaul of universal service arrangements, [CIC] [CIC].

- [CIC] [CIC].

4.3 Proposed future funding model

To the extent that some or all of the costs of universal service are intended to be funded by an industry fund, **nbn** recommends a single scheme should be established, rather than the existing model of the TIL and RBS operating separately with duplicated administration costs on industry and government. However, any future funding model must continue to recognise the significant historic costs of establishing **nbn**'s satellite and fixed wireless networks that still need to be recovered, in addition to any upgrade / transition / migration / ongoing losses that may be associated with a revised universal service framework.

One model for such an industry fund, (that would be consistent with the key principles outlined in section 2) would include:

- The establishment of a **single industry fund**.
- Funding contributions to be collected by the fund would include a small **set percentage of eligible revenue** (similar to the TIL, but with the amount of the levy set by Government in advance rather than determined based on costs to be contributed to the fund each year), by all carriers and CSPs (on a technology-neutral basis, including fixed-line, fixed wireless, mobile, satellite).
- A built-in requirement for an independent regulator to **periodically review** the funding percentage and the funding base, and to adjust going forward by Ministerial Direction (subject to ensuring that sufficient funding would be collected to meet future distributions).
- Funding of net losses to be distributed based on actual costs of delivering non-commercial services to meet universal service obligations based on an agreed calculation approach including any applicable discount rate.
- Certainty would be provided to funding recipients by locking in commitment to the recovery of capital costs over an agreed duration before those costs are incurred.
- To the extent that the amount of funding contributed exceeds the current and projected distributions required to meet universal service obligations, discretion could be provided for the Government to direct that funding towards additional communications policy objectives such as mobile blackspots, network resilience initiatives, community WiFi or targeted affordability measures (such as the School Student Broadband Initiative).

As noted at the outset of the submission, the specifics of any funding model will need to follow on from the relevant universal service obligations that may be set, which is currently being



considered by Government under separate consultation. Whether the model proposed above is the right one will depend on what universal service objectives are set and the regulatory / policy mechanisms that will be applied to achieve those objectives.

5 Key principles and characteristics of a sustainable long-term funding model

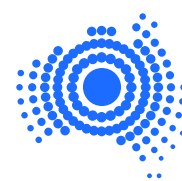
Whether the Government proceeds with **nbn**'s proposed single industry fund model as outlined above, or alternative funding arrangements, **nbn** considers that reform must be guided by well-established principles of economics and public policy. **nbn** agrees with the principles of a sustainable long-term funding model identified by the Department in the Funding Paper. In addition, there are some further principles that **nbn** considers are important to have regard to, as outlined in section 2.

We have provided further detail below in relation each of these principles, and how they may be relevant to consideration of future funding models.

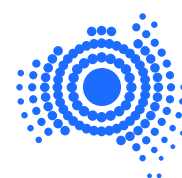
There will always be trade-offs between each of the relevant criteria. For example, a funding model that is highly transparent may lack administrative simplicity; a funding model that is extremely flexible may lack adequate certainty. In considering different funding models, it will be necessary to consider the relative importance of different criteria, taking into account relevant factual matters such as the nature of the obligations being funded, the existing state of the market, the costs involved in meeting the relevant obligations, and whether those costs are primarily incurred upfront or on an ongoing basis. Importantly, while there are trade-offs between these principles, and such trade-offs involve difficult decisions, the worst outcome would be for reform not to happen leading to further market distortions and inefficiencies.

Table 3: Principles of a sustainable long-term funding model

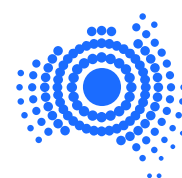
Principle	Application to long-term funding model
Sustainability	<p>Sustainability is a critical principle to guide development of a future funding model.</p> <p>Where a future funding model is based on industry as a source of funding (as opposed to Government funding via grant or consumer subsidy), it will be essential to ensure the applicable charge base is able to continue to provide the necessary funding over time, and that the charge base accommodates, and is not rendered redundant due to, technology changes and associated market dynamics.</p> <p>Ensuring that the charge base is as broad as reasonably possible (as explored further in section 6) and defined in a technology-neutral manner, will be increasingly important as the communications market continues to rapidly evolve.</p> <p>Sustainability also involves ensuring that funding obligations cannot be circumvented. As noted in Error! Reference source not found., the RBS is imposed on a “per premises” basis, which adds significant complexity to the</p>



Principle	Application to long-term funding model
<p>Certainty</p>	<p>scheme and does not adequately capture scenarios in which a single Local Access Network (LAN) is used to support multiple end-users (corporate, commercial or residential Multi Dwelling Units (MDUs). A revenue-based levy will improve sustainability by ensuring that the levy collected is proportionate to the income received from a service, regardless of whether the technical means of delivery is via one line or multiple.</p> <p>Adequate certainty regarding future funding is essential for future universal service providers to appropriately invest in, operate and maintain agreed infrastructure and services. This involves certainty of the:</p> <ul style="list-style-type: none"> • obligations to be met / services to be provided (including quality and service level requirements); • net costs that will be funded and the method used to quantify those costs, including any timing and updating of those costs (ensuring they remain relevant); and • the duration / continuation of funding support. <p>Telecommunications infrastructure often involves significant upfront capital and operational investments. Where that is the case, certainty must include confidence that once capital has been efficiently invested based on a legal obligation to deliver a service, continuity of funding must be guaranteed. This can occur with full upfront funding such as a grant, or over a committed timeframe.</p> <p>Where the funding is over a period of time, then the period of cost recovery should reflect the long-term economics of deploying the relevant technologies and the life of the assets being deployed. It cannot be the case that any sunk costs and accrued losses not yet recovered would become stranded if changes are made to relevant universal service obligations in the future. Such a possibility at the outset of the investment would substantially alter the risk of the relevant investment <i>ex ante</i> and would require a higher return on capital for the investment.</p> <p>Certainty is also a desirable feature for those parties from whom funds would be collected. In particular, it is preferable for funding providers to know in advance the amount of, and basis for, their required contribution. For example, a fixed percentage of revenue or a per service charge would provide greater certainty to funding contributors than a scheme in which the total amount to be collected each year could potentially vary dramatically from year to year, based on the costs of a third party.</p>
<p>Transparency</p>	<p>Any funding arrangements should provide an appropriate level of transparency and verification with respect to the costs / losses being funded.</p> <p>An appropriately transparent funding arrangement should ensure that the cost of non-commercial services and the level of funding required is clear to Government</p>



Principle	Application to long-term funding model
Flexibility	<p>and industry. Transparency will enable the costs and benefits of providing non-commercial services to be appropriately assessed and verified, in order to:</p> <ul style="list-style-type: none"> • determine if existing arrangements continue to meet the relevant policy objectives; and • assess the administration and performance of non-commercial services arrangements and ensure ongoing efficiency. <p>Similarly, there should be a degree of transparency regarding contributions to funding and how the size/split of those contributions is determined.</p> <p>Flexibility in respect of the source of funding and allocation of funds is appropriately a key principle for consideration of future funding models. Ideally, any funding arrangements should be able to adapt to changes in technology and the market, which may require adjustment over time to the location or type of services requiring support and also to the source of funding.</p> <p>Where possible, technology-neutrality with respect to both collection of funds and the types of technology that can be subsidised will maximise flexibility. However, where this is not feasible, a regular review process may be necessary and appropriate, to ensure ongoing flexibility.</p> <p>There is a tension between the objective of enabling future flexibility to reflect the availability of more efficient technologies, and the certainty required for providers to commit to investing in the infrastructure needed to deliver services.</p> <p>Whether or not a service continues to be commercially loss-making is a matter that may need to be reviewed from time to time. The geographic boundaries between commercial and non-commercial broadband services may also change over time.</p> <p>However, where significant long-term capital investment is required to meet an obligation, there must also be certainty for the service provider that funding / subsidies will not be withdrawn prior to the recovery of those sunk costs. The importance of certainty is discussed above.</p> <p>As noted in the Funding Paper, due to changes in technology over the past decade, a rollout that commenced now would likely have a different footprint or technology mix to nbn's current fixed wireless and satellite networks. However, nbn's decision to invest in these networks was prudent and efficient at the time it was made, and reflected relevant regulatory obligations at that time.</p> <p>If an alternative technology provides a more efficient means of delivering universal services in the future, then at some point it may become more efficient to cease incurring forward-looking operational losses on the nbn SkyMuster service and migrate those services to that alternative technology. However, to the extent there are real historic capital costs that remain unrecovered at that point, remaining sunk costs should reasonably still be recovered.</p>



Principle	Application to long-term funding model
Administrative simplicity	<p>In designing a future funding scheme, consideration must be given to minimising administrative complexity for Government, funding recipients and funding providers, and avoiding overlapping or duplicative schemes. If a funding scheme is complex to administer, monitor and implement, it is less likely the benefits of the scheme will outweigh the overall costs to society (which includes those administration costs).</p> <p>Where exemptions or eligibility thresholds are used to reduce administrative burden on small operators, it is important that exemptions or eligibility thresholds do not operate to create opportunities for regulatory bypass or to subsidise inefficient market entry.</p> <p>To the extent that any future funding scheme includes a revenue threshold, nbn would recommend that these be minimal, and that the same threshold should be applied to all operators regardless of size. For example, if contributions are to be made as a percentage of revenue, the first \$X million of annual revenue <u>for all operators</u> would not be counted for the purposes of calculating their contribution to the fund.</p>
Economic efficiency	<p>To ensure any proposed future funding model provides long-term benefits in the context of the competitive telecommunications landscape, the impacts of the funding model should be assessed as to the extent to which they support or constrain productive, allocative and dynamic efficiency. In particular, the funding arrangement should:</p> <ul style="list-style-type: none"> • minimise any distortion of incentives to adopt the best mix of technologies and exploit economies of scale, to deliver services at the lowest possible cost; • minimise the extent of any diversion of resources away from their more highly valued use, and distortions to investment and consumption choices; and • be structured so it does not deter a provider from investing in and innovating their service delivery approach, to reduce costs or provide new services over time. <p>nbn discusses this concept in more detail in section 6 below.</p>
Fairness / Equitability	<p>Equitability generally involves considering the distribution of a policy’s costs, benefits and risks across different groups of society, and whether those impacts are “fair”. One of the key fairness concepts is that different individuals who face similar circumstances should be treated similarly (“horizontal equity”). A broad charge base will help reduce the size of any impact on end-users, and help improve horizontal equity.</p>
Consistency with the	<p>Any future funding arrangement will be only one component of regulation that affects participants within the communications industry. Therefore, the design of</p>



Principle	Application to long-term funding model
regulatory regime	the funding arrangement will need to consider the potential for conflict or impact on other regulatory requirements and policy objectives.

6 A broad charge base is more efficient

According to general taxation theory, the overall welfare loss to society of raising any amount of revenue is generally reduced by collecting that revenue over as wide a base as possible.

Direct Government funding to support the provision of universal services is the widest base possible (i.e. general taxation revenue). We note funding for the USO is currently supported by ongoing Budget funding of \$100 million annually (in addition to the TIL), which is likely to continue to be appropriate in the future to support the achievement of a revised universal service policy objective. However, this kind of direct Government funding may not be feasible for all losses associated with future universal service obligations.

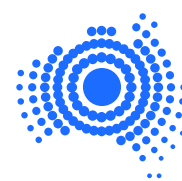
To the extent that an industry levy is used to fund all or part of universal services in the future, **nbn** recommends that, at a minimum, all carriers and CSPs should be included in the charge base for any future industry levy, including mobile and satellite providers.

Economic efficiency is promoted when the price of a good reflects the marginal cost of supplying that good. When this is the case, consumers have an incentive to consume up until the point at which the value they place on consuming that good is equal to the cost of producing that good. Taxes raise the price above marginal cost, creating a wedge between the price and the cost to provide. This distorts consumption by discouraging consumers from buying the good – even though they value it at more than the cost of supply. As a consequence, an inefficient level of consumption and investment will occur. This lost consumption / investment is commonly referred to as a “deadweight loss”, which reflects a loss to society of economically optimal production and consumption.

In general, as a levy increases in size, the deadweight loss grows at an increasing rate. For this reason, it is generally the case that a small amount of tax on a wider range of activities involves far less distortion than a larger amount of tax on a small group of activities, all other things being equal.

The wider the funding base, the lower any industry levy needs to be (per chargeable unit), all else equal. Since the distorting effect of a tax increases proportionately with the level of the tax rate, a broader-based levy is more economically efficient. That is, it is more economically efficient to spread the recovery of costs for non-commercial universal services over as many services as possible.

Market impacts / distortions will also be minimised because a broad-based industry levy can be passed through to end-users in a manner that minimises any distortion to competition or entry / investment decisions. By contrast, if a tax is only levied on a small subset of activities, there is

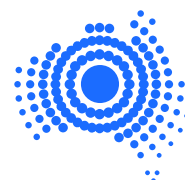


more opportunity for consumers and producers to change their behaviour to avoid the tax by consuming / producing an alternative product. Therefore, an industry levy that is sourced from a narrow group of businesses / services but not their substitutes, may unduly affect investment incentives and entry decisions, thereby adversely affecting competition.

It is essential that any proposed future funding model ensures that providers of substitutable services contribute fairly to the funding of loss-making services. This will aid economic efficiency and equity and reduce uneconomic distortions to competition. As the current RBS demonstrates, significant issues can arise where a charge base is defined too narrowly. In markets where technology and consumer preferences are rapidly evolving, these distortionary impacts can be difficult to predict, which further supports setting a wide, technology-neutral charge base.

Consideration could also be given to expanding the charge base for any industry levy to include Over-the-Top (**OTT**) service providers. Online businesses such as video streaming, gaming and social media platforms, who are monetising the amount of time Australian consumers spend online, directly benefit from the ubiquitous availability of high-speed broadband. In addition, digital platforms are building their own transmission capability, and providing services that are substitutes for voice and video calls and messaging. Over time, those services may erode the revenue base of some carriers and CSPs, and therefore put at risk the sustainable funding of non-commercial services.

Expanding the charge base for any industry levy to include OTT platforms (at least to the extent they are providing services that are substitutes for telecommunications services) could increase the equity and sustainability of any industry levy in the long run.



Appendix A [CIC] [CIC]



Appendix B [CIC] [CIC]



Appendix C Other matters raised in Funding Paper about RBS

Chargeable premises

The current basis for assessing liability under the RBS is “chargeable premises”, which is defined by reference to a CSP supplying a broadband service over a local access line owned by a carrier (or in respect of which there is a nominated carrier declaration is in place).

The use of “chargeable premises” as the basis for the levy adds complexity to the scheme (given the need to consider the application of the scheme to a variety of circumstances such as MDUs and circumstances in which there may be more than one service supplied to a single premises).¹⁸

“Premises” is a term used in connection with the SIP regime but, as noted in the Funding Paper, is not a term otherwise commonly used in the communications industry.

A further concern is that a premises-based charge does not adequately capture scenarios in which a single LAN is used to support multiple end-users (corporate, commercial or residential MDUs). For example, where a single high-speed aggregation link (e.g. enterprise ethernet) is supplied to a building manager, who may then connect a large number of individual residences or businesses. Under this scenario, where tenants / owners do not order individual services from their own CSP, but rather take a service from the building manager, then under the current scheme this would only count as a single chargeable premises.

In addition, assessing liability on a chargeable premises basis restricts the flexibility of the scheme to move towards a more technology-neutral funding base.

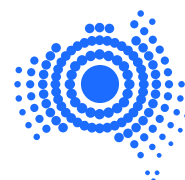
A preferable approach would be to levy the charge based on eligible revenue, or alternatively based on services in operation (SIOs). This approach would offer greater flexibility as the contributors to funding evolve, and would reduce complexity and limit opportunities for regulatory bypass.

If chargeable premises is retained as the basis for the RBS in the short term, the definition should be amended to be technology-neutral, including removal of the reference to “local access line”. In addition, a requirement is needed for all “aggregation” carriage services (as described above) to make RBS contributions on the basis of the number of downstream services provided to end-users.

Exemptions

nbn does not consider there is any case for increasing the amount of the general exemption, for example by aligning it with the current 12,000 premises exemption from the structural separation

¹⁸ In the Revised Explanatory Memorandum for the *Telecommunications Legislation Amendment (Competition and Consumer) Bill 2019* (Cth) more than six pages are provided of example scenarios based on the definition of “chargeable premises”, specifying the number of charges that would apply in each scenario in accordance with the definition.



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requirements as flagged in the Funding Paper. The structural separation requirements serve an entirely different purpose.

The transitional concessions that apply for the first five eligible financial years of the RBS (25,000 “potentially concessional premises” and 55,000 “recently connected greenfield premises” per month) add administrative complexity rather than simplifying the scheme, and effectively operate to enable regulatory bypass and subsidise inefficient market entry.

These exemptions should not be extended beyond their initial term.

