



## **RESPONSE TO COMMENTS REPORT**

# **NICTA staff's response to the comments received in response to the Public Consultation Paper on the Retail Pricing of Entry Level Broadband Service**

*Issued on 21<sup>st</sup> October 2014*

# Table of Contents

<b>1</b>	<b>BACKGROUND .....</b>	<b>3</b>
<b>2</b>	<b>SUBMISSIONS .....</b>	<b>4</b>
<b>3</b>	<b>OVERALL RESPONSE .....</b>	<b>5</b>
	<b>OVERVIEW OF OTHER COMMENTS RECEIVED AND NICTA STAFF'S CONSIDERATION OF AND RESPONSE TO THOSE COMMENTS .....</b>	<b>6</b>

## 1 Background

NICTA released a Public Consultation Paper on 20<sup>th</sup> June 2014 which set out for public comment approaches that might be taken to the implementation of that part of the National Broadband Policy (NBP) dealing with the regulation of entry level broadband service retail pricing. The aim of this part of the NBP is to promote the widest and earliest adoption of broadband services within the population and the greatest inclusion in social and economic activity facilitated by broadband access.

The discussion paper sought submissions on the general issues involved and on three questions in particular:

1. How should NICTA assess the affordability of entry level broadband services?
2. What initiatives or actions by NICTA could help broadband service providers reduce their costs and improve the value of the retail broadband services supplied to end-users?
3. What are the (stakeholders') views on the appropriateness of the parameters in Figure 4 (of the discussion paper) for the purposes of selecting from, and standardising, the least expensive products of different licensees for the purposes of assessing the affordability of entry level broadband services?

## **2 Submissions**

Submissions were received from five organisations:

1. Bmobile Limited (“Bmobile”)
2. Digicel (PNG) Limited (“Digicel”)
3. Independent Consumer and Competition Commission (“ICCC”)
4. The National Research Institute (“NRI”)
5. Telikom PNG Limited (“Telikom”)

The submission from Telikom was received after the submission deadline and is noted only.

### 3 Overall Response

The responses to the comments received, summarised in the table below are the responses of NICTA staff. The Table is organised on the basis of responses to the specific questions first and on general aspects of retail broadband service pricing second.

All submissions were valuable. The overall response of NICTA staff is to now proceed with the approach outlined in the discussion paper but to take account of the various suggestions that have been made in the submissions. This includes:

- (A) The need to assess entry-level prices over time and, at the same time, to review the developments in the broadband services market as a whole, in order to provide context for the assessment;
- (B) The need to be concerned with changes in the key metrics, including the entry-level prices as a percentage of per capita GNI over time, rather than concentrate on the 5% threshold (which may take some considerable time to achieve); and
- (C) The need to consider the availability and price of international bandwidth capacity and of bottleneck international gateway services along with other factors in the course of assessing entry-level retail service affordability.

## Overview of comments received and NICTA staff’s consideration of and response to those comments

NICTA staff have not (in the Table below) responded directly to every point or comment that was made by the respondents in their submissions. Many arguments and comments were repeated, and sometimes many times. However all comments are considered to be important and have been addressed below. Even if not specifically addressed below, all comments received were considered in full and have been taken into account.

Item	Respondent	Comment	NICTA Staff Response
<b>Question 1</b>	<b>How should NICTA assess the affordability of entry level broadband services?</b>		
1	Bmobile	p. 3: Bmobile accepts that accepted international approaches to broadband affordability are suitable for PNG but subject to caveats about cost levels and other factors in PNG.	Noted. The point about the ITU standard for affordability of 5% of average income is not that it is immediately attainable in PNG but that monitoring of progress in affordability should be in terms movement in a measure based on entry level pricing as a proportion of average income. Bmobile's comment appears to support that approach.
		pp. 3-4: Bmobile notes that “for many households in Papua New Guinea, a single broadband connection will benefit many members of that household through the use of the mobile device as a local access modem. In this case there may be benefit in an entry-level household broadband service whereby the target access price is say 5% of the average household income, aligned with a more generous download limit than suggested for individual customers.” Bmobile recommends a Family Service be added to the entry level service types for consideration.	This is an interesting suggestion. However in practice it may make little difference to the measurement in question (that is a metric based on the entry level price as a percentage of average income. Although mobile services are considered to be personal communications services, they may well be used for household, community or group connectivity. If required, household usage may be a useful supplementary measure for NICTA to monitor. However NICTA staff will propose that this measure be held in reserve for now until the adequacy of the proposed measures is tested though a monitoring trial period.
2	Digicel	p. 4: “Digicel submits that affordability of broadband services should not be assessed solely or exclusively on price. It is relevant to take into account qualitative considerations, including the accessibility of	Affordability needs to be assessed in many ways, but price compared to income is the only quantitative measure that has been put forward. NICTA staff agree that qualitative factors will need to

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
		<p>broadband services, including through retail distribution channels.”</p> <p>p. 4: Digicel says that GNI understates the extent of economic activity that takes place in PNG and omits a significant proportion of informal / in-kind economic activity. Digicel suggests that because NICTA cannot make adjustments for “true GNI” it “should be wary of using 5% of measured GNI as a benchmark to assess affordability.”</p> <p>p. 4: Cross-subsidies. Digicel considers that “delivering broadband services at a price no more than 5% of GNI is likely to require cross-subsidies...” ... “Digicel believes that any intervention to regulate entry level broadband services would be misguided, or at best, premature.”</p>	<p>be considered in any assessment, although the specific qualitative factors mentioned by Digicel would appear to go to availability rather than affordability.</p> <p>Informal and in-kind economic activity is a feature of all economies. Digicel’s point, as NICTA staff understand it, is that such activity is a greater proportion of total economic activity in PNG than in developed and many other economies. This may be true, but, as Digicel notes, NICTA does not have the means to adjust for this. NICTA staff agree that some care should be used in using the GNI figure to draw conclusions. NICTA proposes to use the figure and to undertake comparisons with other countries from time to time (the ITU data series will continue to be useful. The important conclusions will not be about direct comparisons, but how PNG has improved on this measure over time, relative to improvements in other countries over the same period.</p> <p>Digicel may be concerned that NICTA is considering entry-level price regulation at 5% of per capita GNI. At least the comments suggest this possibility. Digicel should have no such concerns. This is not what NICTA is intending. NICTA staff recognise from the information available that current entry level broadband services are well above the 5% figure. The important points in the approach in the Discussion Paper are to identify entry level service characteristics from the commercial offerings that service providers have developed, ensure that those specific services remain available (while they are relevant to consumer needs) and monitor the prices that apply. Presumably these services are profitable now and they should remain so into the future. Therefore, there should be no issue of cross-subsidisation.</p>
3	ICCC	<p>p. 1: ICCC considers that calculating the percentage of per capita GNI is appropriate but with a view to see if prices rise or fall on that measure over time. ICCC notes that the current real charge “is</p>	<p>Agreed. The ICCC has encapsulated how NICTA proposes to proceed and rightly emphasises the change in the affordability measure over time.</p>

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
		miles from the international benchmark 5%”.	
4	NRI	NRI did not specifically address this question.	
<b>Question 2</b>	<b>What initiatives or actions by NICTA could help broadband service providers reduce their costs and improve the value of the retail broadband services supplied to end-users?</b>		
5	Bmobile	p. 4: “International access prices can be further reduced by allowing Papua New Guinea providers to aggregate demand and negotiate long term bulk supply arrangements.”	NICTA staff are not aware of any regulatory or legal constraint on broadband service providers doing this at present. The issue will be explored further by NICTA.
		p. 5: “Shared passive infrastructure such as sites, buildings, masts.”	There are no legal or regulatory constraints on passive infrastructure sharing at present. NICTA has already indicated that it will not mandate access to mobile networks and infrastructure in favour of service providers with outstanding rollout obligations.
		p. 5: “Shared active infrastructure such as power systems”	There are no legal or regulatory constraints to sharing of power systems or other active infrastructure at present. Mandatory access is dependent on the criteria for service declaration being met and this is not the place to assert that power systems would be covered. If mandatory access is not available, then the commercial imperatives of reduced costs will be relied upon as factors to encourage voluntary sharing amongst network operators.
		p. 5: “Roaming arrangements that support the ability for a mobile user to automatically access home data services, when travelling outside the geographical area of their home network... “	There are no legal or regulatory constraints to this happening now. As already noted above, NICTA has indicated that it will not mandate access to mobile networks and infrastructure in favour of service providers with outstanding rollout obligations.
6	Digicel	p. 5: Digicel considers that recent broadband price reductions have been the result of investment by and competition between ISPs in	Noted. The claims by Digicel will be pursued as a separate matter

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
		retail markets rather than the result of the Minister’s declaration of international transmission capacity service. Although Telikom has been forced to negotiate the effective cost of international IP transit to ISPs has not been reduced.	by NICTA.
7	ICCC	p. 2: ICCC notes that “the current government initiative to make DataCo the wholesaler” of fibre optic cable capacity will assist in reducing costs and prices across the board.	Noted.
		p. 2: “The proposed method by NICTA and NBP to leave everything to market forces to solve affordability is supported by ICCC.”	Noted. However, if market forces are inadequate in addressing the effective access to broadband by marginal customers (because of continuing affordability issues) then NICTA would need to consider intervention options. Monitoring the market will allow these judgments to be made.
8	NRI	NRI did not explicitly address this question but did consider how the market might be made more competitive and how wholesale service issues might need to be addressed for that to happen.	Responses to NRI’s comments are set out in the general section of this table at item 16, below.
<b>Question 3</b>	<b>What are your (stakeholders’) views on the appropriateness of the parameters in Figure 4 (of the discussion paper) for the purposes of selecting from, and standardising, the least expensive products of different licensees for the purposes of assessing the affordability of entry level broadband services?</b>		
9	Bmobile	p. 5: Bmobile agrees “that Figure 4 sets out practical minimum performance for entry-level broadband services.”	Noted.
		p. 5: “Entry-level mobile broadband services need to be identified and allowed to develop through competitive market activity or where appropriate through accurate cost assessment for declared services.”	Agreed. There is no intention of preventing the development of services as a result of identifying them as entry-level for the purposes of price monitoring. It is important that the various offerings in the market be reviewed regularly to adjust to developing and changing notions of what is an entry level service. Customer behaviour will be important in this process.

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
		<p>p. 5: "Fixed broadband services may need base capital and operational costs to be driven by a regulated cost plus approach where there is a lack of wholesale competitive pricing evident."</p>	<p>NICTA's proposed approach is to identify entry-level broadband retail services for fixed broadband in the same way as mobile. NICTA has already established pricing principles in relation to international capacity services and considers that sufficient for the time being.</p>
		<p>p. 6: In response to Figure 4 of the discussion paper Bmobile has set out its own table for the assessment of entry level broadband and shows against commitment period, payment option, and pre-paid validity the comment "No comment – a commercial decision for the service provider".</p>	<p>With respect Bmobile may have misunderstood the purpose of Figure 4 in the discussion paper. Clearly these and other dimensions of service need to be identified. They will need to be defined, albeit based on commercial decisions of service providers to date, before being adopted as the entry-level service. They cannot remain unknown or vague as suggested by the Bmobile comment.</p>
10	Digicel	<p>p. 5: "Digicel does not have material concerns with the parameters proposed in the Consultation Paper provided that any information reported by NICTA must not contain confidential information. However, in Digicel's view, any monitoring in respect of entry level broadband services should be conducted as part of periodic reviews of the overall market, rather than as standalone reviews, consistent with the approach of regulators in other jurisdictions."</p>	<p>Agreed. In order for data collection to be put in context a wider review of the broadband retail services market, and possibly of wholesale market impacts, will be needed at the same time. In addition the views of industry participants on market development will be sought.</p>
		<p>p. 5: It would be more useful to compare <i>changes</i> in the price of entry level broadband services with <i>changes</i> in the wholesale price of submarine cable capacity."</p>	<p>It is agreed that this will be an important aspect of retail price monitoring – but additional to, rather than in lieu of, retail price as a percentage of per capita GNI,</p>

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
11	ICCC	p. 3: ICCC considered this question required technical expertise that is more appropriate to NICTA staff, but expressed general agreement with the parameters because they are “in line with International Telecommunication Union parameters”.	Noted.
12	NRI	NRI did not address this question.	
<b>General</b>			
13	Bmobile	pp. 1-2: Bmobile sees “competition in the mobile market as having resulted in reduced costs for voice, internet access and messaging services.”	Noted and agreed. The NBP is largely based on achieving results in terms of availability, affordability and service development and take-up through private investment and competitive market forces.
		p. 6: Government action (including regulation) is needed to reduce input costs for retail broadband services.	Generally agreed. Other initiatives are being taken at the wholesale level including the review of wholesale international broadband services, and the declaration that followed. The present exercise is focussed on actions that might now be taken in the retail market directly.
14	Digicel	p. 3: Digicel “observes that ‘affordability’ per se is not the end goal. Rather, the relevant policy goal is to provide services that end users in PNG have reason to value and for which they are willing to pay. The ‘affordability’ of broadband services is ultimately a matter for end users. Digicel submits that a more relevant policy goal is to promote take up of broadband services in PNG including fostering	Agreed that these other aims are not only important but, together with issues of affordability, part of a total series of policy settings in the NBP. However part of the value equation that all customers, and especially marginal customers who are a key focus of the present exercise, need to consider is the price of service. It is not a matter of more relevant goals but of a series of goals that need to be pursued to ensure early, maximised and sustainable take-up of broadband

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
		investment in broadband access infrastructure.”	services.
		p. 3: “We understand the government’s desire to drive greater broadband uptake but the comparisons in the Consultation Paper about relative progress in PNG make two mistakes: first, they compare PNG with a range of developed economies with mature markets – and this comparison is not valid; and second, related to this, they fail to recognize that the PNG market is still in the early stages of development – there is no evidence that the continued action of market forces will not over time result in increasingly affordable entry-level broadband prices in PNG as well.”	Broadband services and high speed access to the public internet and information resources is important for all economies, whether developed or not and whether they have mature broadband markets or not. The comment misunderstands the point of the comparisons. They are not about PNG having the benefits of developed markets overnight; rather, they are about making it clear how other economies, whatever their state of development, fare against the ITU measure of service prices being at 5% or less of average income. As the PNG economy develops and the benefits extend throughout the community it is likely that market forces will deliver increasingly affordable entry-level broadband services in PNG as Digicel says. However the Government is committed to take a leadership role in encouraging this outcome at an earlier time and on a wider scale than would otherwise occur.
		pp. 5-6: Digicel notes that “affordability” of ICT services is not an objective of the Act, and cites Section 2(a) in relation to meeting the social, industrial and commercial needs of Papua New Guinea and its people.	The Act does not make the affordability of retail services an object per se. However it is clear that the reliance on competition is intended to deliver services that reflect sustainable quality and price. It remains to be seen whether market forces alone are sufficient to ensure that entry-level broadband retail service prices are sufficiently affordable to ensure that they could be considered to be meeting the social, industrial and commercial needs referred to in Section 2(a).
		p. 7: “Digicel opposes any regulation of entry level broadband services and respectfully submits that ‘affordability’ is at most a secondary concern.”	Digicel has advocated a view that it considers should apply irrespective of market developments. It is important to note that regulation is not the first or preferred option of NICTA in this area. The preferred option is to monitor the market and to conclude on the evidence that market developments are increasing affordability and

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
			overall adoption of entry-level and other broadband services at a good rate. The issues that affect broadband take-up extend beyond affordability, but it is an important dimension for consideration when it comes to social and economic inclusion.
15	ICCC	p. 3: "To help make the broadband service in remote areas affordable, the government through appropriate agencies should cross subsidise installation costs to enable service providers to manage and charge affordable broadband services."	Noted. NICTA has a role through the Universal Access Scheme to undertake the work that ICCC envisages in its comment. NICTA expects the UAS to commence effective operation soon. Amendments to the Act are under consideration to give effect to this.
16	NRI	Letter p. 1: "Emphasis should therefore be placed on accessibility and availability of broadband and internet services which largely depend on ICT backbone and network assets. The more critical, though, is the access to capacities on international submarine cables and satellite-based services."	Noted. The NBP places considerable emphasis on these factors in the overall approach to broadbanding PNG. However the thrust of this paper is on one aspect of the multi-faceted NBP – namely affordability, especially for marginal users.
		Letter pp. 1-2: NRI notes that price regulation may be an unnecessary intervention and may distort market development in terms of innovation, quality etc.	Noted and agreed. Because of the risks of market distortion that attend any regulatory intervention NICTA is proceeding with caution. In the first instance it intends only to monitor the changes in affordability, using a measure based on the percentage of the price of defined entry-level broadband services against per capital GNI. As already noted the context in which this measure changes will also be assessed, together with other qualitative factors.
		Para 2.3: NRI notes the problems that retail service providers (ISPs) have in accessing wholesale services and international capacity at reasonable prices.	Noted. NICTA will be pursuing these issues separately.

RESPONSE TO COMMENTS REPORT: RETAIL PRICING OF ENTRY-LEVEL BROADBAND SERVICES

Item	Respondent	Comment	NICTA Staff Response
		<p>Para 3.2: NRI notes that the physical realities of many remote areas in PNG means that “competition alone will not be fully instrumental in achieving the Government’s National Broadband Policy objectives.”</p>	<p>Noted and agreed. Nevertheless, the primary motive force on which the NBP is based is the force of a competitive marketplace fed by, substantially, private investment.</p>
		<p>Para 4.1: “The continuing lack of competition may compel NICTA to intervene in the retail pricing of the broadband market through applications of its regulatory instruments.... For example, the broadband service providers might be required to submit their retail prices to NICTA for its approval or variation, depending on evidence of market domination.”</p>	<p>NICTA is not seeking to regulate retail broadband service prices in this manner. Evidence of retail market level dominance has not been presented to NICTA and it has separately studied wholesale service issues when it examined international capacity and gateway service markets. Also, as already stated, it is not NICTA’s preference to regulate entry-level retail prices, but this option is not being ruled out. The appropriate course of action will need to be considered after identification and monitoring of entry level service characteristics and prices.</p>

