

## Appendix A: Optus' international benchmarking analysis

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- 1.1 This section provides the Optus' international benchmarking analysis.
- 1.2 In undertaking the international benchmarking analysis, Optus relied on the information contained in Ovum's international benchmarking report of February 2009.
- 1.3 The Ovum's report made adjustments to the general regulatory framework, population density, land use, copper prices, loop length and pricing structure and that it compared Telstra's proposed charge of \$30 with the determinations in other countries.
- 1.4 Optus has adopted the same approach as that of Ovum, taking into account the same factors Ovum has considered and compared the ACCC's draft indicative prices with determinations in other benchmark countries. Optus has also taken an additional factor into account including the timing of the determination.

### *Factors*

#### *(1) Countries chosen*

- 1.5 Optus notes that Ovum chose nine benchmark countries including Germany, Austria, France, Denmark, Sweden, Italy, Finland, Spain, United Kingdom and Netherlands.
- 1.6 Ovum considers that these countries are comparable to Australia as regulation in these countries have been in place for more than 5 years and that they are all developed countries with similar market structures<sup>1</sup>.
- 1.7 Optus agrees with Ovum that these countries are comparable to Australia. Optus has undertaken a separate international benchmarking analysis in the context of Telstra's ULLS Band 2 undertaking of 2008 which compares these countries' socio-economic environment, state of the market and the regulatory framework to Australia's.
- 1.8 In respect of the socio-economic environment, Optus found that all benchmark countries and Australia had a:
  - GDP per capita of over \$US 16,771 in 2008;
  - Unemployment rate of under 10% of population in 2008;
  - Consumer Price Index in the range of 113.4 to 126.95 in 2007;
  - Gini Index was in the range of 0.29 to 0.41 in 2008; and
  - Literacy rate of above 98.41% of population in 2008.

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<sup>1</sup> Ovum, *Telstra ULLS Undertaking – ULLS international benchmarking*, February 2009, p.6

- 1.9 In respect of the state of the market, Optus found that all benchmark countries and Australia had:
- With the exception of Finland, all benchmark countries' incumbents hold the majority of market shares in the fixed line market;
  - High level of broadband penetration; and
  - High level of fixed line telephone penetration.
- 1.10 In respect of the regulatory environment, Optus found that all benchmark countries and Australia had:
- Local loop unbundling regulated and that the incumbent is obliged to provide access to its local loop when requested.
  - The access charge for local loop unbundling is based upon costs.

*(2) Exchange Rate*

- 1.11 There is exchange rate differences when comparing the draft ACCC's indicative prices with determinations in other benchmark countries.
- 1.12 Optus has therefore made an adjustment to the exchange rate using the monthly exchange rate data from the Reserve Bank of Australia (RBA)'s website.
- 1.13 As exchange rates are subject to fluctuations, Optus took an average of the monthly exchange data over a 10 year period.
- 1.14 Table 1 provides the ULLS monthly rental charge of the ten benchmark countries in the third quarter of 2009. Using the 10 year monthly averaged exchange rate of 1 AUD = 0.5920 Euro, the result shows that the benchmark countries ULLS monthly charge ranges from \$13.16 to \$19.91, which are all lower than the ACCC's draft ULLS indicative rates of \$20 and \$23.60.

**Table 1 Fully unbundled local loop monthly rental charge<sup>2</sup> based on adjustment on exchange rate**

Country	ULLS monthly rental charge EUR 3Q 2009	ULLS monthly rental charge AUD (1AUD = 0.5920 EURO <sup>3</sup> )
Finland	11.79	19.91
Germany	10.20	17.29
Italy	9.39	15.86
Austria	9.33	15.76
France	9.0	15.20
Denmark	8.91	15.05
United Kingdom	8.56	14.46
Netherlands	7.83	13.23
Spain	7.79	13.16
<b>Australia</b>	-	<b>20</b>
<b>Australia</b>	-	<b>23.60</b>

*(3) Purchasing power parity (PPP)*

- 1.15 The theory of purchasing power parity (PPP) is a logical means of assessing relative prices of homogenous or identical goods. It is a widely accepted methodology to reflect differences in the cost of living and inflation rate of different countries<sup>4</sup>
- 1.16 Ovum found that with adjustment on PPP, the monthly ULLS cost for the benchmark countries range from \$12.45 to \$16.94.
- 1.17 With adjustment on PPP, the ACCC's draft indicative prices of \$20 and \$23.60 are both higher than the benchmark countries' determination.
- 1.18 While the ACCC may argue that the ACCC's draft indicative prices are not directly comparable to other benchmark countries as Optus is

<sup>2</sup> CiC

<sup>3</sup> This number is derived using a 10 year average monthly exchange rate source: <http://www.rba.gov.au/Statistics/Bulletin/F11hist.xls>

<sup>4</sup> Ovum, *Telstra ULLS Undertaking – ULLS International Benchmarking An Advisory Note to the ACCC*, 26 February 2009, Final Version (Revision 3), p.4

comparing the national average of the benchmark countries with Zone A charge.

- 1.19 The reason why Optus has not derived a weighted average for the ACCC's draft indicative charge is that Zone A price is already an average charge across Geotype 1 to 10.

**Table 2 Fully unbundled local loop monthly rental charge<sup>5</sup> based on adjustment on PPP**

Country	Monthly ULL cost (PPP)	Cost Standard
Germany	16.89	LRIC
Austria	15.2	LRIC
France	14.75	LRIC
Denmark	13.22	LRIC
Sweden	12.90	FDC
Italy	12.45	FDC
Finland	16.95	FAC
Spain	16.94	FAC
United Kingdom	15.23	FAC
Netherlands	12.87	EDC
Australia (current)	15.75	LRIC
<b>Telstra proposed charge</b>	<b>28.93</b>	<b>LRIC</b>
<b>Australia (draft indicative 2010-2011)</b>	<b>20</b>	<b>LRIC</b>
<b>Australia (draft indicative 2011 2012)</b>	<b>23.60</b>	<b>LRIC</b>

- 1.20 The ACCC may argue that this above analysis compares determinations of other benchmark countries based on a different period to that of the ACCC's indicative prices.
- 1.21 However, it is important to note that historically, these benchmark countries have been cutting their ULLS rates substantially and that it would be reasonable to expect these rates to fall further in the near future (see Table 2 below). It is therefore a conservative estimate to

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<sup>5</sup> CiC

compare the ACCC's indicative prices of 2010-2011 and 2011-2012 with the benchmark countries' rates of 2008-09.

- 1.22 Table 2 below shows the historical ULLS monthly rates over the years for the nine benchmark countries in the period 2005 to 2008. With the exception of Finland, Italy and Denmark all other benchmark countries have been cutting their ULLS monthly charges over the years.
- 1.23 However, it is important to note that with Italy, the increase in ULLS charges is due to **CiC**
- 1.24 Also, as mentioned elsewhere, the state of market for Finland is different from the rest of the benchmark countries as the Finnish market is fragmented and that the incumbent does not hold over 50% of market shares<sup>6</sup>.

## **CiC**

### (3) Timing consideration

- 1.25 Optus notes that the Ingenious Consulting Report (ICN) report made a critique on the timing of determination dates of selected jurisdictions. ICN claimed that the ACCC. ICN claimed that the rates adopted in the ACCC's determination may have calculated some time ago<sup>7</sup>.
- 1.26 Optus however found that most of the benchmark countries have only updated their determinations in 2008-09. The table below shows the timing of the determination

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<sup>6</sup> **CiC**

<sup>7</sup> ICN, *Commentary on the use of international benchmarking in setting interconnection rates*, December 2008, p.10

<b>Country</b>	<b>Timing of determination</b>
Germany	March 2009 <sup>8</sup> . The new rates will be in effect until the end of March 2011.
Austria	December 2006 <sup>9</sup>
France	2009 <sup>10</sup>
Denmark	October 2008 <sup>11</sup>
Sweden	2009 <sup>12</sup>
Italy	2009 <sup>13</sup>
Finland	2008 <sup>14</sup>
Spain	April 2009 <sup>15</sup>
United Kingdom	May 2009 22 May 2009 until 31 March 2011 <sup>16</sup>
Netherlands	2008

*(4) Population density*

- 1.27 Population density is a relevant factor in conducting an international benchmarking analysis.
- 1.28 Optus submits that with adjustment to population density, the ACCC's draft indicative charge of \$20 and \$23.60 are not consistent with the benchmark countries referenced in the Ovum's report.

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<sup>8</sup> CiC

<sup>9</sup> CiC

<sup>10</sup> <http://www.arcep.fr/index.php?id=6989&L=1#5764>

<sup>11</sup> CiC

<sup>12</sup> CiC

<sup>13</sup> CiC

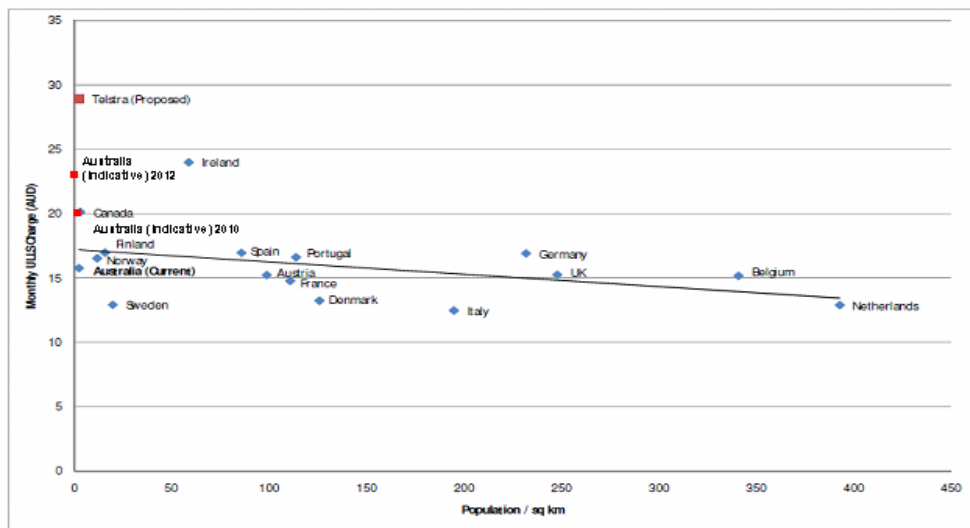
<sup>14</sup> CiC

<sup>15</sup> CiC

<sup>16</sup> [http://www.ofcom.org.uk/media/news/2009/05/nr\\_20090522](http://www.ofcom.org.uk/media/news/2009/05/nr_20090522) Ofcom, *A new pricing framework for Openreach*, May 2009

1.29 The result is shown in Figure 2.4 below.

**Figure 2.4: Monthly ULLS Charge vs Population Density (June 2008)**



Source: Ovum

#### (5) Copper prices

- 1.30 Ovum did not have reliable data on copper cable prices and that it has not attempted to undertake this comparison.
- 1.31 Ovum however noted that copper price is an international commodity and that the landed prices of copper cable are similar in all countries comparable to Australia.
- 1.32 Optus does not consider copper price is a relevant factor. As mentioned elsewhere, a hypothetical new entrant would not provision a copper network but would otherwise use alternative technologies such as wireless, fibre or satellite.
- 1.33 However, if the ACCC considers copper price is a relevant factor, Optus supports the Ovum's finding that copper price is an international commodity.

#### (6) Land use

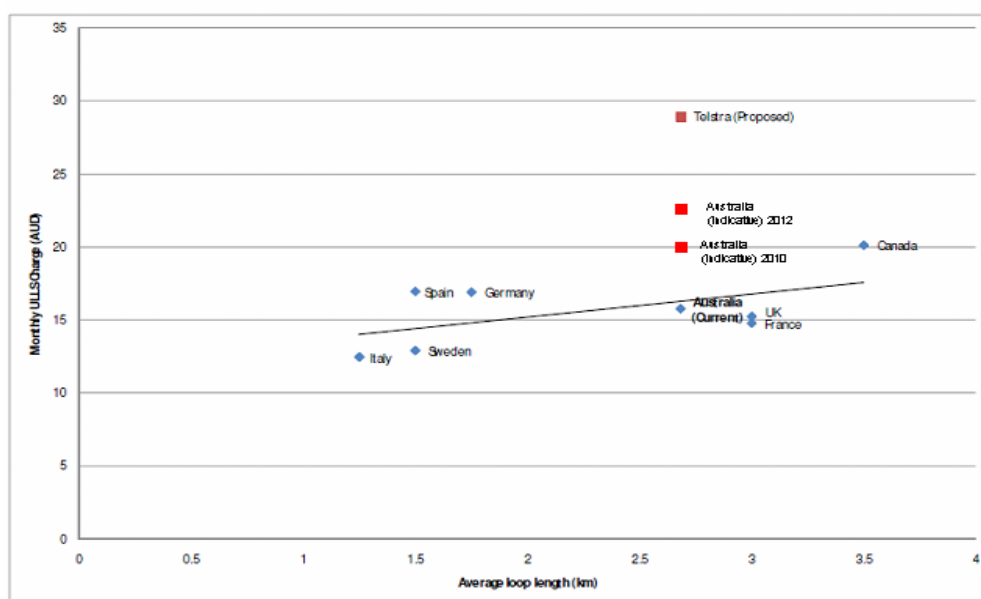
- 1.34 Ovum had difficulty locating reliable information relating to land use and housing mix. Ovum however noted that land use and population density are correlated<sup>17</sup>.
- 1.35 Optus supports Ovum's finding that land use and population density are correlated.

<sup>17</sup> Ovum, *Telstra ULLS undertaking –ULLS International benchmarking*, February 2009, p.8

### (7) Loop lengths

- 1.36 Optus agrees with Ovum that the distribution of loop lengths in a country affects the quantities of cable and structure needed for an access network and thus is one of the relevant factors to consider when considering the ULLS charges of the different benchmark countries<sup>18</sup>.
- 1.37 Optus submits that with adjustment to loop lengths, the ACCC's draft indicative price of \$20 and \$23.60 are not consistent with the determinations of the benchmark countries.
- 1.38 The result is shown in Figure 2.5 below.

**Figure 2.5: Monthly ULLS Charge vs Average Loop Length (June 2008)**



Source: Ovum

### (8) Pricing Structure

- 1.39 Ovum considers that the general pricing structure may affect the ULLS prices. Ovum used two comparisons and that the first comparison is to compare the ULLS monthly charge with the lowest monthly retail price charged by the incumbent and competitors. Ovum noted that this is a measure used by ITIF to assess the affordability (on a per-bit basis) of higher quality broadband services<sup>19</sup>.
- 1.40 Adopting Ovum's first methodology (with adjustment to lowest monthly retail price charged by the incumbent and competitors of the different benchmark countries), the ACCC's draft indicative price of \$20 and \$23.60 would push the Australia data points upwards and to the right (as companies adjust their retail charges).

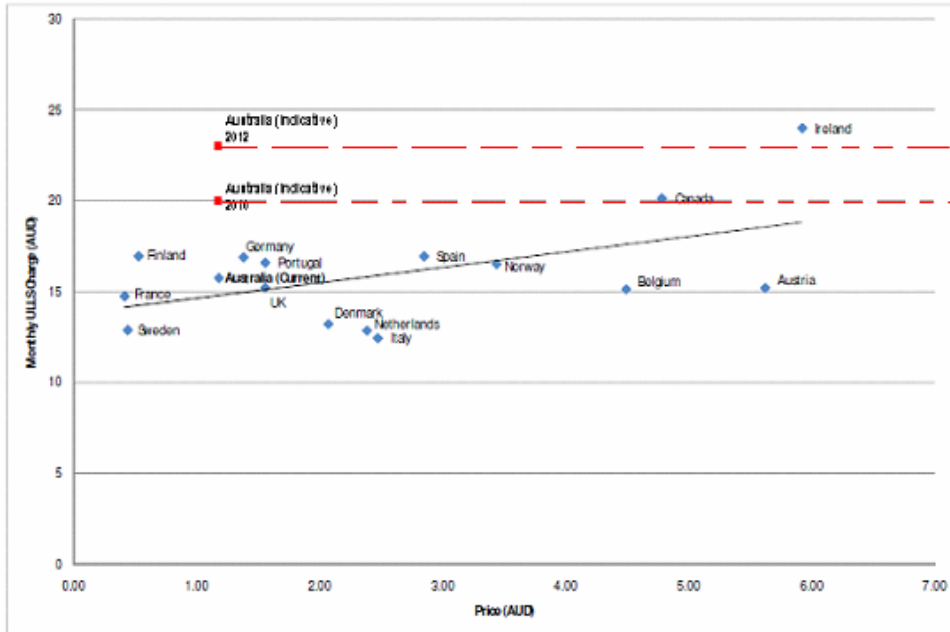
<sup>18</sup> Ovum, *Telstra ULLS undertaking –ULLS International benchmarking*, February 2009, p.9

<sup>19</sup> Ovum, *Telstra ULLS undertaking –ULLS International benchmarking*, February 2009, p.10



1.41 The result is shown in Figure 2.6 below.

**Figure 2.6: Monthly ULLS Charge vs Lowest Monthly Price per Mb/s (June 2007)**



Source: Ovum, based on ITIF analysis [3]

1.42 Ovum’s second methodology is to compare the ULLS monthly charge with the ULLS margin factor. The ULLS margin =

$$\frac{\text{ULLS monthly charge}}{\text{Average retail price}}$$

1.43 The retail price chosen is a weighted average of the retail prices charged to consumers, weighted by number of subscribers and availability of the retail service. Ovum sourced the average retail price from the OECD statistics of October 2007.

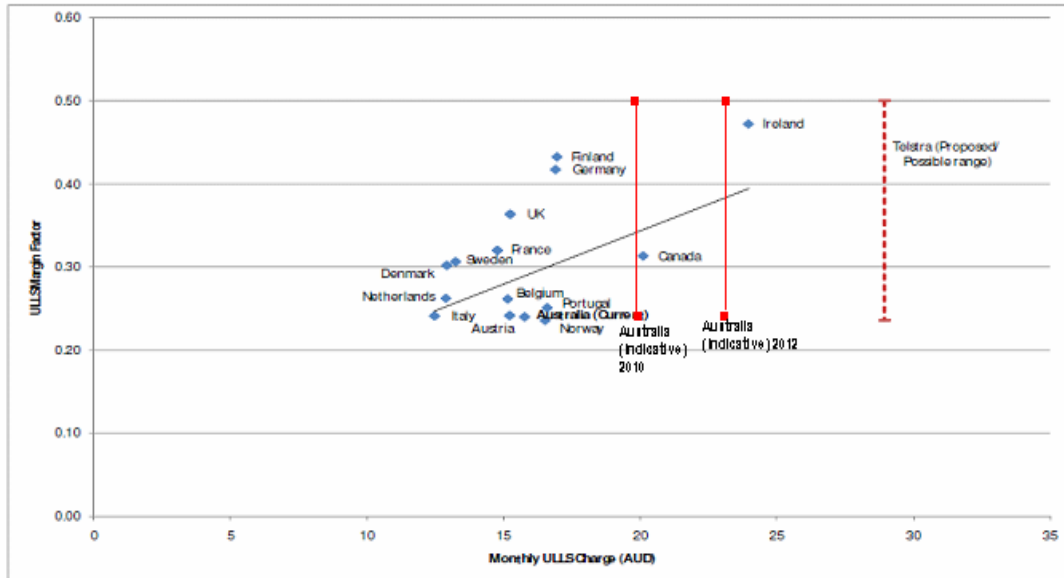
1.44 Ovum noted that the ULLS margin factor is usually less than 1. If the ULLS Margin factor is low, then there is room for competition and vice versa if the ULLS Margin factor is high.

1.45 Adopting the same methodology as Ovum and using its information sourced from OECD, the result is as follows:

- If retail prices were to remain unchanged, the ACCC’s indicative price of \$20 would provide a ULLS margin factor of 0.25.
- If retail prices were to remain unchanged, the ACCC’s indicative price of \$23.60 would provide a ULLS margin factor of 0.29.

- However, it is important to note that retail prices will likely to increase as the proposed charge of \$20 and \$23.60 would put upward pressure on the retail prices offered by access seekers. Figure 2.7 below therefore shows a range of possible ULLS margin factor around the 0.25 and 0.29 number as it is difficult to anticipate the retail effects.

**Figure 2.7: ULLS Margin Factor vs Monthly ULLS Charge (October 2007)**



Source: Ovum

### Conclusion

- 1.46 Optus therefore found that with adjustments to a number of factors including general regulatory framework, exchange rate, purchasing power parity, population density, land use, copper prices, loop length and pricing structure, international benchmarking data shows that the ACCC's indicative prices of \$20 and \$23.60 are higher than all the benchmark countries' ULLS monthly charge.