

24 August 2015

Robert Wright  
General Manager, Water and Wireline Markets  
Australian Competition and Consumer Commission  
GPO Box 520  
Melbourne VIC 3001

Dear Robert

### **PROPOSED CHANGE TO THE PRICING OF WADSL COMPONENTS**

Thank you for your letter of 17 August 2015 outlining a new proposal to alter the uniform price increase as a result of adjustments to the treatment of Telstra's declared wholesale ADSL (WADSL) service.

Optus does not support the proposed change to set prices for components of the WADSL service differently than the other regulated fixed line services. The proposal would alter the price relativities of the regulated fixed line services to the detriment of access seekers who have invested in competitive infrastructure. The proposal in the letter does not promote the long term interest of end-users more than the uniform average price change proposed in the Draft Decision and Further Draft Decision. Optus does not support its adoption.

Optus does not have before it sufficient information from the ACCC to comment on several key aspects of the proposal, namely:

- Optus cannot comment on the assumed increase in VLAN demand due to take-up of streaming video services. It is not clear to Optus whether there has been any change in VLAN forecasts over the period of the model. Optus cannot recreate the pricing in the letter or estimate its full impact, as we do not have information on the assumed yearly Mbps usage for the period to 2019.
- Optus cannot verify the adjustments made in the FLSM as the ACCC has not supplied an updated version of the model. We are therefore not able to comment on the approach adopted. Given that changes to the FLSM have been a key issue in this Inquiry we are concerned that industry has not been given a reasonable opportunity to test the ACCC's modelling approach.

These concerns are magnified due to the timing of the release of the proposal. With only a short time remaining in this FAD Inquiry, it is not clear that there is reasonable opportunity for the ACCC to provide the underlying data; for interested parties to supply informed views; and, for the ACCC to take these views into account.

The letter states that the ACCC is cognisant of pricing stability and regulatory certainty. The letter references a statement in the Draft Decision which observes that maintaining price relativities will minimise undesirable consequences of setting prices for individual services. The letter uses this quote to *support* setting WADSL pricing outside of the uniform price change approach.

Optus agree with the statement in the Draft Decision, but we do not agree that the statement provides support to the proposal put in the letter:

- First, the Draft Decision statement refers to maintaining price relativities *between* the different access services. WADSL is the access service not VLAN and port prices. The proposal in the letter may be motivated by maintaining the relative distribution of WADSL costs across port and VLAN components, but the impact of the proposal is to alter the price relativities between WADSL and the other access services (ULLS, WLR, OTA, LSS, etc). The proposal is therefore contrary to the statement in the Draft Decision.
- Second, the proposal to almost halve the VLAN charge and *increase* the ULLS access charge from the rates proposed in the Further Draft Decision fundamentally alters the access price relativities between resale and infrastructure based access services. The proposal penalises access seekers that have invested (and plan to invest) in competitive infrastructure and favours those access seekers that resell Telstra's ADSL. This would appear counter to the well-established principle that competition is best promoted through increase in competitive infrastructure investment. A focus on re-sale services limits the ability of access seekers to differentiate their services from Telstra.

Optus does not see how the proposed pricing change is consistent with the statements in the Draft Decision observing that maintaining price relativities will minimise undesirable consequences of setting prices for individual services. Indeed, it would appear that the approach proposed to set price of WADSL individually may lead to the undesirable consequences the ACCC is trying to avoid.

Further, the decision to price VLAN separate from the uniform price change appears arbitrary. The letter highlights that the uniform price change approach leads to a significant variation between price and allocated costs for WADSL. But a large variation between revenue and allocated costs occurs for many regulated services, not just WADSL. **[CiC]** It is not clear why the ACCC has chosen to focus on WADSL. Departing from the uniform price change approach for services that have large variation between revenue generated and revenue required undermines the rationale for adopting a uniform price decline.

Optus notes there are many service price change scenarios which allow Telstra to recover its costs over the regulatory period that vary from a uniform price decline. As an example, the proposed service prices in table 1 allow Telstra to fully recover its costs over the regulatory period.<sup>1</sup> There is no evidence to support the variation proposed by the ACCC better promotes the long term interest of end-users than the prices proposed in table 1 or any other possible variation that allows Telstra to recover its costs.

<sup>1</sup> [CiC]

Table 1: Alternative Price Structure

Code	Service	Unit	Current prices	New prices	% Δ
S01	Unconditioned Local Loop Service Band 1-3	\$ / month	16.21	14.52	-10.4%
S02	Unconditioned Local Loop Service Band 4	\$ / month	48.19	33.84	-29.8%
S03	Wholesale Line Rental	\$ / month	22.84	21.35	-6.5%
S04	FOTAS	¢ / minute	0.95	0.86	-9.5%
S05	Local Carriage Service	¢ / call	8.90	8.50	-4.5%
S06	Line Sharing Service	\$ / month	1.80	3.41	89.4%
S07	Wholesale ADSL				
	Zone 1	\$ / month	24.44	21.67	-11.3%
	Zone 2/3	\$ / month	29.66	26.30	-11.3%
	AGVC/VLAN	\$ / Mbps / month	32.31	25.19	-22.0%

Furthermore, it is not clear whether access seekers could obtain the benefits flowing from lower VLAN pricing. Reducing VLAN pricing by such a large margin is likely to lead to substantial changes in demand for WADSL ports and backhaul capacity. It is not clear whether Telstra's DSL network would be upgraded in a timely manner to allow access seekers to achieve this growth.

Finally, Optus acknowledges that it has previously raised issues with the manner in which the VLAN pricing is calculated within the FLSM. These issues were raised in the context of a broad range of concerns with the functioning of the FLSM and the initial draft output prices. Many, although not all, of these concerns have been addressed through the revised prices in the Further Draft Decision which represent a reasonably balanced outcome. Altering one price component will upset this equilibrium and would require a range of other issues to be reopened.

Please do not hesitate to contact me if you have any questions or which to discuss this issue further.

Regards

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