



Tasmanian Government Submission

Domestic Transmission Capacity Service Final Access Determination

March 2016

16/18734

I Executive Summary

The Tasmanian Government welcomes the Australian Competition and Consumer Commission (ACCC)'s draft decision on setting default price and non-price terms for the sale of Domestic Transmission Capacity Services (DTCS) and further consultation on the proposal to increase the uplift factor to be applied to prices for transmission services using the undersea cable component to Tasmania.

The draft DTCS Final Access Determination (FAD) released in September 2015 proposed significant reductions in the regulated prices and maintaining a 40 per cent uplift for submarine cables, such as those in Bass Strait.

Subsequently on 8 March 2016, the ACCC sought comment on increasing the uplift to 140 per cent. The ACCC noted that the proposed change will still lead to a substantial reduction in observed market prices for high capacity services.

However, the change will increase the price differential to provide telecommunications services in Tasmania relative to the rest of Australia.

Historically, the price differential between Tasmania and major population centres in mainland Australia in backhaul services has had a major impact on the availability of telecommunications and related services in the State.

However, the introduction of Basslink and the subsequent 2012 DCTS FAD led to a substantial reduction in the price differential. This led to growth in investment in the telecommunications and related services in the State.

Prior to 2012 many Internet Service Providers (ISPs) made commercial decisions not to sell services in Tasmania. This has since changed. This has supported further investment in the State and consequential benefit to the Tasmanian economy and community, increasing demand for capacity across Bass Strait.

The crucial importance of the Bass Strait route to the Tasmanian economy and community has been highlighted by recent events.

The Tasmanian Government:

- welcomes the September 2015 proposed revised pricing model which will significantly lower prices across Australia, reflecting market shifts due to changing usage patterns and supporting the digital economy.
- supports the investment in new cable or cables to Tasmania and acknowledges the need for infrastructure owners to make viable returns.
- recognises that while some degree of uplift should remain in place, does not support a dramatic rise in the Bass Strait uplift.
- is of the view that without new economic evidence to the contrary, the uplift should not be lifted above 40 per cent, because of the disadvantage this would cause to Tasmanian consumers and business development.

2 Telecommunications and the Tasmanian Economy

2.1 Background

Tasmania is geographically isolated from mainland Australia. It is an important island economy, but has a highly dispersed population and industry base.

These factors increase the costs to telecommunications service providers by increasing:

- costs for backhaul services across the island;
- the number of mobile phone towers required to service equivalent populations and geographic area; and
- other telecommunications infrastructure requirements.

The same factors increase the benefits to businesses and consumers of having access to affordable quality telecommunications services.

The Tasmanian Government supports the investment in new cable or cables to Tasmania and acknowledges the need for infrastructure owners to make viable returns.

2.2 Bass Strait telecommunications services and pricing

Currently there are two owners of backhaul infrastructure services across Bass Strait, Telstra and Basslink.

Charges for backhaul services across Bass Strait have been consistently higher than similar services on mainland Australia. This has been due to the additional costs to install and maintain a submarine cable and due to the level of actual and potential competition.

Basslink's entry into the telecommunications market in 2009 resulted in a significant price reduction, but still significantly higher than similar services on mainland Australia.

The 2012 DCTS FAD resulted in another step reduction in prices. The determination included a 40 per cent uplift in the regulated price for the undersea component.

Indications are that the commercial arrangements have actually been lower than the regulated price.

2.3 Impact of the 2012 Domestic Transmission Capacity Services

Prior to the introduction of Basslink and the 2012 DCTS the level of non-Telstra investment in the Tasmanian telecommunications market was relatively low.

The number of ISPs that elected not to sell services to Tasmania prior to 2012 is a reflection of the impact of a high price differential.

While the Tasmanian geography and highly dispersed population and industry base were factors in the level of non-Telstra investment, the major factor was the high cost of backhaul services across Bass Strait.

Since then there has been an increase in the:

- number of ISPs providing services to Tasmanian consumers and businesses;
- investment by non-Telstra mobile phone carriers;
- number of carriers owning and selling on-island optic fibre services;

- investments in the local ICT industry; and
- demand for capacity across Bass Strait.

It is unknown to what extent the increased demand for capacity across Bass Strait has compensated for lost revenue due to reduction in charges.

2.4 Current Bass Strait Telecommunications Issues

The Basslink cable is primarily a power cable and is very different to standard submarine telecommunications cables in design and operational risks.

These differences make it difficult to compare operating risks and costs, including repair costs, to standard telecommunications submarine cables.

The cutting of Basslink's optic fibre cable on 11 March 2016, as part of the process to repair the Basslink power cable, highlighted the:

- fragile nature of the level of competition across Bass Strait;
- impact to the Tasmanian community, including businesses, when internet connectivity is severely degraded to a significant percentage of the community;
- crucial importance of this route to the Tasmanian economy and community; and
- disadvantage of Tasmanian backhaul to support or attract high capacity data services industries and business that require commercial and infrastructure redundant connectivity.

3 Domestic Transmission Capacity Service Final Access Determination

3.1 Draft Final Access Determination

The draft DCTS FAD released in September 2015 proposed significant reductions in the regulated prices and maintaining a 40 per cent uplift for submarine cables, such as Bass Strait.

The Tasmanian Government welcomes this proposed revised pricing model which will significantly lower prices across Australia, reflecting market shifts due to changing usage patterns and supporting the digital economy.

The ACCC noted that the current infrastructure providers were concerned that the 40 per cent uplift does not reflect the additional costs to maintain the infrastructure.

ACCC noted this was contrasted by Vodafone Hutchison Australia (VHA)'s submission that the ACCC should re-examine the uplift adjustment with current data. VHA went on to note that the Bass Strait route prices may not be reflective of competitive market outcomes, and that the uplift should not be higher than the 40 per cent. TPG made similar points.

The September 2015 view of the ACCC was that there was insufficient evidence to change the uplift factor. However, on 8 March 2016, the ACCC contacted stakeholders requesting submissions on a proposal to lift the uplift factor to 140 per cent.

The ACCC noted that the proposed change will still lead to substantial reduction in observed market prices for high capacity services. However, the Tasmanian Government considers that the change will increase the price differential to provide telecommunications services in Tasmania.

3.2 Needs of infrastructure providers

The Tasmanian Government is of the view that telecommunications infrastructure providers should expect a fair economic return on their investment.

The 40 per cent uplift factor in the 2012 DCTS FAD was based on a robust analysis of the additional costs to supply telecommunications services across Bass Strait.

However, providing a fair return to infrastructure providers should not be a reason to over-compensate inefficient technologies or service providers.

3.3 Long term interests of end users

Experience in Tasmania demonstrates that having a high price differential in DCTS is not in the long term interests of end users.

As noted above, prior to the 2012 determination, there was little in the way of competitive investment in telecommunications services in Tasmania. The fact that many ISPs chose not to sell services in Tasmania despite the availability of infrastructure is a reflection of this.

The 2012 FAD saw a form of 'data equalisation', but with an uplift for the submarine cable reflecting increased costs to infrastructure providers. The magnitude of that uplift has been responsible.

This has supported further investment in the State and consequential benefit to the Tasmanian economy and community, increasing demand for capacity across Bass Strait.

The backhaul issues highlighted in recent events, demonstrates the difficulty in attracting and retaining investment in Tasmania with regards to high capacity data services industries and business. Any additional costs with regards to transmission may compound this position.

3.4 Uplift

The Tasmanian Government recognises that some degree of uplift should remain in place, the Government does not support a dramatic rise in the Bass Strait uplift.

The Tasmanian Government is of the view that without a substantial body of new economic evidence to the contrary, the uplift should not be lifted above 40 per cent.