



Introduction

Telstra provides this supplementary submission in response to the ACCC's fixed line services FAD 2018 consultation and position paper. This submission responds primarily to issues raised by Vodafone who state that they do not support rollover of the existing prices and pricing principles for fixed line services, and that the ACCC should reconsider FTAS pricing in this upcoming FAD. Specifically, Vodafone are concerned that the FTAS price is too high relative to MTAS and will create distortions in downstream markets.

Telstra considers that the issues raised by Vodafone are more appropriately dealt with in the upcoming MTAS FAD or when there is a common IP Management system (**IMS**) applying to fixed and mobile interconnect services, due to the declining importance of fixed line legacy services as migration to the National Broadband Network (**NBN**) reaches its final stages. The issues raised by Vodafone should not delay resolution of the fixed line services FAD. Our reasons for this are set out below:

1. Maintaining existing prices for fixed line services is in the LTIE

As stated in our May 2019 submission, maintaining existing prices for all fixed line services is in the long-term interests of end users (**LTIE**). The relevance of Telstra's legacy copper network is fast diminishing as rollout of the NBN nears completion. We note that maintenance of existing prices is supported by other key stakeholders, namely ACCAN¹ and Optus². Telstra considers that the issues raised by Vodafone are not material to the fixed line services FAD and should not delay its finalisation. Such a delay would create uncertainty and distraction for retail service providers as they focus on migration of customers to the NBN and would not be in the LTIE.

2. The MTAS:FTAS relativity should not be a primary regulatory consideration in the setting of access prices

The setting of access prices, including for termination rates (fixed and mobile), should focus on the recovery of efficient costs. However, Vodafone is arguing that the ACCC should not adopt rollover primarily because of the relativity of MTAS and FTAS prices. This relativity should not be a key driver of the ACCC's decision making.

Prior to the current FADs for both fixed line services and MTAS, the MTAS:FTAS ratio was 3:1. Currently, the ratio is 2:1 and this has been the result of consultations over many years by the ACCC to set access rates for MTAS (and FTAS). Whilst Vodafone highlight New Zealand's current relativity (3:1) in their submission, relativities of terminating services differ significantly across jurisdictions³ — there is no consensus on what should be an "appropriate" relativity. By referencing the New Zealand example (which is subject to change), Vodafone appear to suggest that the New Zealand experience is optimal and delivering superior benefits to consumers. However, the Commerce Commission's findings dispute this and show that New Zealand consumers pay more for mobile services than Australian consumers (\$4 lower in Australia for low users and \$35 more expensive for high users), showing more positive benefits being generated in Australia.⁴

We also consider that it is premature to speculate on MTAS pricing, given the ACCC is at the time of this submission seeking submissions on the MTAS declaration.

¹ ACCAN 2019, Submission to the ACCC Fixed Line Position Paper, 3 April 2019.

² Optus 2019, Submission in response to the ACCC Consultation and Position Paper, April 2019.

³ See BEREC 2018, Termination Rates at the European Level, December.

⁴ Commerce Commission 2019, https://comcom.govt.nz/data/assets/pdf_file/0020/146702/Mobile-market-study-Preliminary-findings-Analyst-brief-slides-16-May-2019.PDF, May.



3. Competition has continued to evolve

The mobile market is a highly competitive market which has seen consumers benefit from the introduction of new technologies, decreases in prices over time and increased value for money and inclusions. Vodafone's suggestion of detrimental effects to downstream markets due to MTAS:FTAS price relativities is difficult to understand.

As outlined in our submission into the Declaration of the MTAS (2018), the market for mobile services has continued to evolve. In the ACCC's 2017-2018 Communications Market Report⁵, the ACCC reported an average annual price decrease in 2017-2018 of 8.3%, a five year average price decrease of 8.3% and computed that data allowances have increased 172% over the last year for mobile services. In addition, the ACCC note that mobile network operators (**MNOs**) are heavily investing in next generation technologies such as 4G and 5G, highlighting the strong competitive dynamics.

4. Vodafone's concerns may be more appropriately considered in the upcoming MTAS FAD and subsequent inquiries as market conditions change

Vodafone raised concerns about MTAS prices as part of the last MTAS FAD and we consider the next FAD inquiry may be an appropriate forum to reconsider the issue. Vodafone state that maintenance of the FTAS rate will result in Telstra being overcompensated for termination of mobile to fixed calls, while at the same time underpaying for calls that originate from the legacy fixed network and terminate on the mobile networks. To accept this proposition one would have to accept Vodafone's position that a MTAS:FTAS relativity of 3:1 is appropriate. However, as noted above, relativities do vary between jurisdictions and it is not clear why 3:1 should be the target relativity. Further, we also note the declining importance of FTAS, [c-i-c begins] [REDACTED]

[c-i-c ends] Any market efficiencies Vodafone claim will be achieved will be minimal at best and when coupled with the extra burden/complexity and distraction of determining a new FTAS rate, it is clear such an action is not in the LTIE.

The migration of customers to the NBN and declining importance of the legacy copper network suggests that any pricing focus should be on MTAS rather than FTAS. [c-i-c begins] [REDACTED]

[c-i-c ends] It is also the case that under our preliminary update of the FLSM, the FTAS price should increase by over 30% (assuming a once-off uniform price increase to all regulated fixed line services). In relation to FTAS specifically, unit costs are disproportionately high and a move to cost reflective pricing would imply an even higher increase in the FTAS price. More generally, the uniform price change approach implies that FTAS pricing should not be considered independently of the other fixed line services — if the ACCC were to reopen FTAS pricing then it would have to reopen pricing of all other services too. As noted above, this would not be in the LTIE.

Finally, as convergence of fixed and mobile services continues, Telstra recognises that the relative pricing of interconnect services becomes more relevant. However, Telstra considers that it is in the medium term when there is a common IMS (which we expect will exist in 3-5 years) that the pricing of interconnect services (i.e. FTAS and MTAS) should be considered more holistically. It would be premature to consider before there is a common IMS.

5. USO/NBN payments are already considered under the BBM FLSM approach.

⁵ ACCC, 2019, Communications Market Report 2017-2018, February 2019.

⁶ Wholesale only

⁷ Wholesale only



Vodafone comments that there needs to be public and rigorous testing of USO payments and nbn migration payments received by Telstra. The veracity and the treatment of these payments has been explained by Telstra in numerous submissions and the treatment of NBN impacts and payments has been settled legally.

To clarify, USO payments are deducted in the ACCC's fixed line services model (FLSM) and the NBN migration and related payments are taken into account using the nbn adjustment mechanism.