

ACCC fixed line services – final access determinations (FAD) inquiry 2018 – preliminary consultation

Introduction

On 12 December 2018, the Australian Competition and Consumer Commission (ACCC) commenced a public inquiry into making FADs for Telstra’s fixed line services and for wholesale ADSL. The current FADs for these services expire on 30 June 2019. The ACCC also initiated a preliminary consultation seeking comments in response to matters relating to price and non-price terms and conditions for access.

Vocus Group Limited (Vocus) is an ASX listed, vertically integrated telecommunications provider, operating in the Australian and New Zealand markets. Vocus owns an extensive national infrastructure network of metro and backhaul fibre connecting all capital cities and most regional cities across Australia and New Zealand. Vocus owns a portfolio of brands catering to corporate, small business, government and residential customers across Australia and New Zealand. Vocus also operates in the wholesale market providing high performance, high availability and highly scalable communications solutions which allow service providers to quickly and easily deploy new services for their own customer base.

Vocus welcomes the opportunity to provide a response to this preliminary consultation.

Questions

Question	Vocus response
<p>Factors affecting costs of providing service</p> <p>There are a number of factors affecting the cost of providing fixed line and wholesale ADSL services. Do you have any views on the following potential drivers of cost and their impact on service prices since the last FAD?</p> <ul style="list-style-type: none"> • Interest rates • Productivity levels • Fixed to mobile substitution as a source of declining demand for fixed line services. • Input prices <p>Are there any other major factors that are likely to effect the cost of providing fixed line and wholesale ADSL services?</p>	<p>Vocus expects that the efficient and prudent costs of Telstra providing these services should have decreased since the last FAD.</p> <p><i>Interest rates</i></p> <p>Interest rates have barely moved, so the cost of capital Telstra faces should be stable, if not lower.</p> <p><i>Productivity levels</i></p> <p>Telstra is progressing with a rapid and significant cost reduction exercise in line with market pressure as outlined in its Telstra2022 strategy.¹ Such cost reductions indicate that the costs of providing services has decreased.</p> <p><i>Fixed to mobile substitution</i></p> <p>Telstra should not be compensated for the fact that customers are choosing alternative products. What level the substitution to mobile services may reach is still unknown and will be influenced by various factors including the pace</p>

¹ Telstra2022 Strategy, Our Plan to Lead, 20 June 2018 <https://exchange.telstra.com.au/telstra2022-our-plan-to-lead/>

Question	Vocus response
	<p>of the 5G rollout and RSPs' desire to move away from poor margins reselling NBN.</p> <p>Moreover, Telstra as the owner and operator of one of the biggest mobile phone networks is a major beneficiary of any fall in demand in fixed line services. In the ACCC's Communications Sector Market Study – Final Report, Telstra was reported to hold 41 per cent of the mobile voice services market. In this context, access seekers should not bear the costs of declining use of Telstra's network due to fixed to mobile substitution.</p>
<p>Future pricing</p> <p>In light of the influences affecting the cost of providing services since the determination of the current FAD, the ACCC is interested in views on whether there is justification for a continuation of fixed line and wholesale ADSL prices at their current levels.</p>	<p>Vocus' expectation is that regulated prices for these services should decrease and not continue at their current levels.</p> <ul style="list-style-type: none"> • The relevant telecommunications services are experiencing pricing deflation given intense competition in fixed line services and maturity of the market; • The costs of providing the services are likely to have decreased (for example, due to productivity gains), • Telstra will reduce its spend on legacy infrastructure as it continues the transition to the NBN • Amortisation of legacy asset costs are likely to have improved due to the extended timeframes and delays occurring in the NBN rollout, such as the HFC "pause",² • As the ACCC recognised in 2015, access seekers should not incur higher charges due to costs associated with Telstra's arrangements with NBN Co and NBN migration. <p>In this context, the more appropriate question is how much prices for the declared services should be reduced.</p>
<p>Pricing duration</p> <p>Is a single set of prices in the FAD for the entire five-year declaration period for fixed line services appropriate? We note that by the end of the NBN migration period only the copper network in the NBN fixed wireless and satellite footprints in generally remote areas will remain in operation.</p> <p>a) Would FAD prices be better determined by reference to pre and post NBN migration completion periods?</p> <p>b) Would a single period FAD be appropriate noting that a variation could be requested at a later date as the operational circumstances of</p>	<p>Vocus' submits that FAD prices would be better determined by reference to pre and post NBN migration completion periods.</p> <p>Due to the changes occurring at Telstra as part of the Telstra2022 strategy, a decision on price in the post NBN migration period would be best determined using empirical data gathered on Telstra costs at that time. This timing and process would ensure that regulated prices more closely reflect the efficient costs incurred by Telstra.</p>

² NBN Co's sales freeze hits 138m premises, IT News, 6 July 2018 <https://www.itnews.com.au/news/nbn-cos-hfc-sales-freeze-hits-138m-premises-497100>

Question	Vocus response
the copper network in the post NBN migration period become clearer?	
<p>Other</p> <p>Are there any additional issues or views you would like to share with respect to price and non-price terms for access to the declared services at this stage?</p>	<p>Vocus submits that a decrease in regulated prices would promote the long-term interests of end users by promoting competition.</p> <p>During this period of transition to the NBN, access seekers need to limit instability in input costs and be provided with a more certain operating environment.</p> <p>The regulated prices for legacy infrastructure should not include scope for monopoly profits. Telstra's claim for a consumer price index (CPI) increase appears arbitrary.³ The factors that may influence the cost of Telstra providing the services bear little meaningful relationship to CPI. This process should not be influenced by Telstra's assumption that its revenues should be protected at the expense of access seekers and consumers.</p>

Please direct any questions regarding this submission to:

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³ Telstra submission in response to ACCC fixed line telecommunications services declaration inquiry – consultation and position paper, page 3