

Mr Marcelo Grosso and Ms Gwenda Gleeson
Communications Group
Australian Competition & Consumer Commission

By email: Marcelo.Grosso@acc.gov.au

and

Gwenda.Gleeson@acc.gov.au

16 March 2007

Dear Mr Grosso and Ms Gleeson

**WIK Mobile Network and Cost Model to inform the MTAS
Pricing Principles Determination 1 July 2007 to 30 June 2009
Commission Request for submissions**

I refer to your discussion paper released on 1 February 2007, which seeks submissions from interested parties on the implementation of the WIK Mobile Network and Cost Model, and its use to inform the MTAS Pricing Principles Determination from 1 July 2007 to 30 June 2009.

Annexure A to this letter sets out AAPT's response to the Commission's request for submissions.

Yours faithfully,

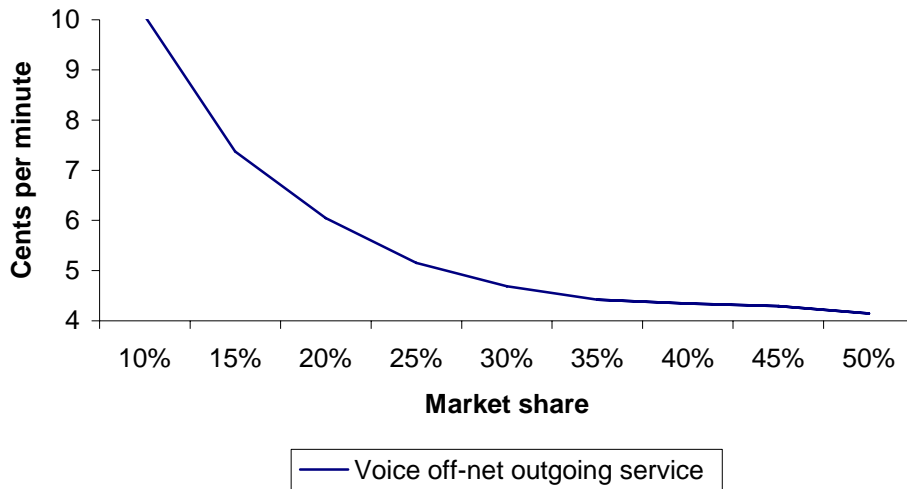
David Havyatt
General Manager – Public Affairs

ANNEXURE A

AAPT LIMITED'S RESPONSE TO REQUEST FOR SUBMISSIONS RE: WIK MOBILE NETWORK AND COST MODEL TO INFORM THE MTAS PRICING PRINCIPLES DETERMINATION 1 JULY 2007 TO 30 JUNE 2009

1. AAPT supports the implementation of the WIK model in order to determine MTAS pricing principles from 1 July 2007 to 30 June 2009.
 - AAPT is satisfied that the outcomes of the model reasonably reflect costs faced by service providers.
 - AAPT finds the model to be user friendly and believe it makes possible manipulation of the relevant variables impacting on the price of MTAS.
2. AAPT's testing of the model found that:
 - a) once a service provider holds at least 25 per cent of the market share, the cost of mobile service provision nears a minimum level, signifying operational efficiency.
 - It should also be noted that while there is little difference (0.68 cents) in the cost of mobile service provision between the scenarios suggested by the ACCC of 25 and 33 per cent market share. It would be unlikely that a competitor with only 25 per cent market share could compete against a provider with a larger market share.

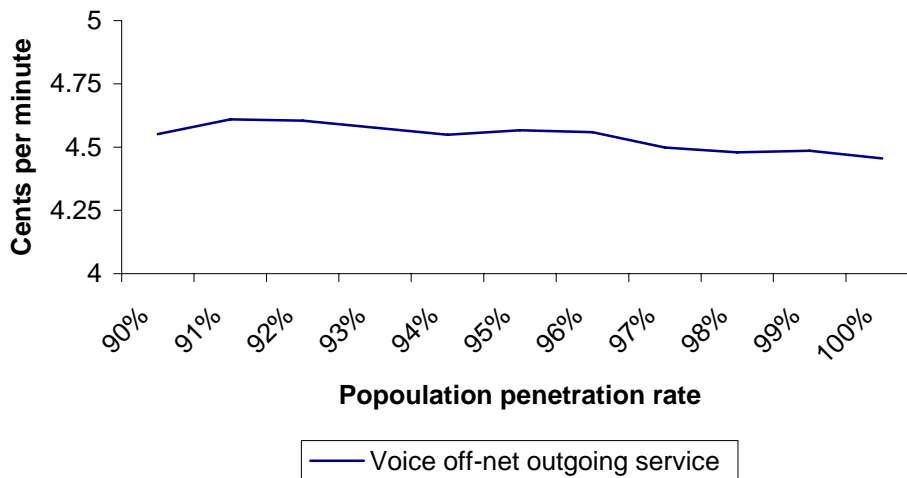
**Market share impact on MTAS price
(at 98 per cent penetration rate)**



b) the cost of service provision with a 96 per cent penetration rate also nears a minimum level, signifying operational efficiency.

- Again it should be noted there is little difference (0.08 cents) in the cost of mobile service provision between the scenarios suggested by the ACC of 96 and 98 per cent mobile penetration rate.

**Penetration rate impact on MTAS price
(at 33 per cent market share)**



3. Given these outcomes, AAPT submits:
 - a) that the ACCC should adopt an input parameter of 33 per cent market share given the Australian mobile market currently supports only 3 mobile service operators. Furthermore, as the modelling indicates there are significant unit cost increases below 33 per cent.
 - b) that the ACCC should use a penetration rate of 98 per cent when using the model to set MTAS prices, given the penetration rates of mobiles in Australia is reported to be reaching almost 100 per cent.
4. With operational efficiency occurring with 25 per cent market share and a 96 per cent penetration rate, AAPT notes that over the past three years mobile service operators have been earning profits well in excess of their costs of providing mobile service termination.
 - In fact, according to the results of the WIK model these margins are more than 100 per cent with current MTAS pricing of 12 cents per minute in comparison with costs in the order of 4.6 to 5.2 cents per minute.
5. AAPT therefore strongly advocates that the ACCC adopts the MTAS prices determined in the WIK model with effect from 1 July 2007.
6. AAPT does not consider a glide path approach to the introduction of the WIK model pricing to be either appropriate or necessary to protect the legitimate interests of those operators given mobile service operators having now been able to extract rents well in excess of service costs for at least the past 3 years.
7. AAPT also wishes more generally to note that the WIK model does not meet the guidelines set out by the ACCC in that it does not allow the user to view the equations upon which the results are based.
8. While AAPT recognises the ACCC would ensure the robustness of modelling results, the inability to view the model equations provides uncertainty.
 - The arithmetic errors contained in the initial Optus and Vodafone submissions are a case in point.

- Uncertainty in the minds of those impacted by MTAS pricing determinations given the inability to see model equations, may in some cases amount to time consuming and costly pricing disputes.