



SUBMISSION TO THE ACCC SEPTEMBER 2003 DISCUSSION PAPER
REVIEW OF THE DECLARATION OF THE DOMESTIC
TRANSMISSION CAPACITY SERVICE

Introduction

AAPT Ltd welcomes the opportunity to comment on the Commission discussion paper reviewing the declaration for the domestic transmission capacity service

To the extent that there has been change since the service was last reviewed, that change has been twofold. Firstly, there are no longer any firms proposing further expansion of capacity. Secondly, the two firms that entered the Perth-Adelaide-Melbourne route are for sale.

Conscious of the Commission's invocation to submitters to address the issues raised in the discussion paper, this submission is framed as responses to the Commission's questions rather than a more general review of the declaration. Where AAPT considers a particular question to have been drafted too narrowly to elicit a complete, meaningful response, we have noted our additional comments in footnotes.

Questions:

- The Commission's view in the previous inquiry was that national long distance call and international call services, data related services and IP based services are the relevant downstream markets for transmission capacity. Are these still the relevant downstream markets for which transmission constitutes an input?
- What is the extent to which downstream services are concentrated on certain transmission routes?
- To what extent do different transmission routes constitute different markets?

- The service description for the transmission capacity service includes transmission from a customer transmission point to an access seeker's network location. To the extent that access seekers acquire "tail" circuits of 2Mbit/s or higher, the downstream markets for the declared service include the local call services market. This is especially so as the IP-based services market now includes the Voice over IP (VoIP) market, which includes local call services.
- Concentration of downstream services on transmission routes has not varied greatly since the 2001 review, as it is primarily a function of geography and population. The Sydney-Melbourne inter-capital route remains the most heavily trafficked, and all the inter-capital routes are heavily used.¹

¹ In considering the issue of market concentration, it is important also to consider the fact that the declared service does not relate only to particular routes, but also includes transmission capacity between access seeker network points and Telstra's (and other service provider's) points of interconnection (POIs). To provide national long distance services without resale of local call services, an access seeker needs transmission to all 66 Telstra call collection areas (CCAs). In some CCAs Telstra maintains multiple POIs and requires traffic to be splayed across two or more POIs. Typically the transmission will be from the location of the POI to the relevant capital city. To use the unconditioned local loop (ULL) service an access seeker also needs to establish transmission to the exchange building in which the ULL service is acquired. Theoretically that could mean up to three thousand transmission routes, though Telstra itself has

- AAPT has not conducted a detailed analysis to determine whether different transmission routes constitute different markets, but submits that the answer is likely to be that they are. The only substitute for transmission between two points is transmission through a third alternative point using alternative infrastructure. For example, that third alternative point could be a satellite. However for most domestic applications, propagation delay makes satellite transmission an unacceptable technical alternative.

Where one point is in a location that is not “connected” to anything other than another location then there is no effective substitute. Accordingly, there are no substitutes for transmission between Perth-Adelaide or Adelaide-Melbourne. The route “substitutes” for Melbourne-Sydney and Sydney-Brisbane are more accurately described as competing suppliers rather than substitute services.²

Questions:

- Have the alternative technologies to fibre optic cable become more or less viable in the provision of transmission capacity since the previous inquiry? Are they likely to increase or decrease in importance in the foreseeable future?
- Are certain types of technology more viable on certain intercapital routes?
- Are certain types of technologies more viable on certain non-intercapital routes?
- Are there other technologies that may become available in the foreseeable future that are viable technologies to provide a wholesale transmission service?

- Alternative technologies are not becoming more or less viable than when the previous inquiry was undertaken. Fibre optic cable continues to have increased capacity advantages, while microwave may still be useful in certain geographic situations. Satellite suffers from propagation delays as mentioned above. Submarine cable is merely a version of fibre optic cable that takes a longer route without trenching.
- Where there are a number of “drop” points a microwave route comprised of a number of short routes plugged together may be viable in densely populated areas. Consequently, microwave is more viable on the Melbourne-Brisbane route than on the Perth-Adelaide route.
- Yes. A short linear distance over difficult terrain may be easier served using microwave than fibre-optic.

only installed DSLAMs in just under 1000 of its exchanges to date. These facts make it very difficult to accurately answer the Commission’s question about concentration of downstream services.

² See note 2. There is no route substitute to a customer transmission point, or (usually) to a POI.

- None that we are aware of.

Questions:

- Are there likely to be new entrants in transmission markets (ie both declared and non-declared) in the foreseeable future?
- Would the exit of any carriers from transmission markets have ramifications for effective competition in particular intercapital transmission markets?
- Do barriers to entry exist in transmission markets? If so, what are they? Are there barriers to expanding in any intercapital transmission market? If so, what are they?
- Taking into account the scope of the existing declaration, does the Commission need to give consideration to removing any elements of wholesale transmission that are currently declared?

- The experience of Australian and international investments in transmission services suggests it is highly unlikely there will be new entrants in the foreseeable future. Notwithstanding that general proposition the inventiveness of firms is what drives the capitalist economy. Who would have foreshadowed after Compass Marks I and II that a third attempted entry would succeed and totally transform the market structure?
- No. The absence of NextGen and IP1 from the Perth-Melbourne route means that the competitive pressure on that market is not as intense as the Commission was previously forecasting. However, as the Commission noted in its 2001 report, “Telstra and Cable & Wireless Optus are likely to be constrained from increasing prices in the absence of regulation. This includes by the possibility of resale competition, such as by AAPT and Amcom.”³ As AAPT has indicated in meetings with the Commission, AAPT is an active participant as a wholesale provider of resale transmission capacity on the Perth-Adelaide-Melbourne inter-capital routes.
- The principal barrier to entry is the high capital cost and the fact that existing capacity is upgradeable fairly cheaply. This is particularly true on the Perth-Adelaide route. The Melbourne-Brisbane routes are also served by amalgams of short haul routes creating more diverse transmission options.
- No. However the Commission will need to continue to closely monitor the Perth-Melbourne route.

³ ACCC *Domestic Transmission Capacity Service, A final report examining possible variation of the service declaration for the domestic transmission capacity service, May 2001, p. 51*

Questions:

- Is there excess capacity in the incumbent and new entrants' networks? If so, is the level of excess capacity relevant for determining the level of competition in the market?
- On what routes is there considered to be high degree of excess capacity?

- Yes. No.
- Potentially all routes will have a high degree of capacity due to the fact that, as mentioned previously, existing capacity is upgradeable fairly cheaply. However, AAPT does not know the current levels of excess capacity.

Questions:

- As noted above, the results of the monitoring program suggest that the price of intercapital transmission capacity has generally fallen over the course of the monitoring program. Has that been your experience as an access provider/seeker? What is the reason this has/has not occurred?
- Has the price on non-intercapital transmission decreased since the entire service declaration was last reviewed? What is the reason this has/has not occurred?
- How do wholesale prices for intercapital transmission in Australia compare to those in other countries? How do wholesale prices for other types of transmission in Australia compare to those in other countries?

- Yes. The source of pricing pressure has been competition – real or prospective.
- Yes. As above.
- AAPT is not in a position to comment. However, AAPT does not believe international benchmarks are likely to be informative given vastly different geographies, the highly dynamic structure of transmission capacity markets and a general global over-investment in capacity.

Questions:

- Do wholesale prices for intercapital transmission reflect underlying costs? If not, on which intercapital routes is this the case?
- Do wholesale prices for non-intercapital transmission reflect underlying costs? If not, on which routes is this the case?

- AAPT is not in a position to comment.

- AAPT is not in a position to comment. AAPT notes however, as the Commission has indicated, a number of transmission capacity contracts are negotiated for extensive time periods and covering multiple services. This makes individual service pricing, and its relationship to underlying costs, difficult to assess.

Questions:

- Would maintaining, varying or revoking the declaration have an effect on the investment decisions of new entrants or existing suppliers in the transmission market?
- How would maintaining, varying or revoking the declaration affect decisions to invest in downstream markets?

- This seems unlikely. There is no evidence the existence of the declaration deterred investment, nor that its variation made investments any more successful.
- The existence of the declaration is an important consideration in any decision to invest in downstream markets. An isolated telecommunications network unit has no value. While there have been few access disputes in relation to transmission, the presence of an obligation to provide the declared service is an indispensable component in the risk management plan for an investment.

Questions:

- Should the monitoring program be extended or curtailed in any way?
- Would publication of data collected under the monitoring program aid competition in the relevant markets?

- No.
- Yes. But it would need to be in summary form rather than raw data, and would need to show variations in volume and overall price structures. In this regard AAPT notes the Commission's discussion of the relative merits of list prices and average prices. AAPT suggests the problems discussed in relation to average prices can be resolved by being more specific about the methodology for determining an average price (for example, by specify averaging of prices rather than division of revenue by circuits). AAPT would also encourage the Commission to consider providing information about the distribution of prices – even if this was only by including average and quartile prices.

Questions:

- What are considered to be the appropriate pricing principles for the transmission capacity service?

- AAPT submits that TSLRIC pricing principles are theoretically the most appropriate pricing principles for the transmission capacity service. However, AAPT acknowledges that there are a number of characteristics of transmission capacity that would make application of such an approach difficult – most notably the fact that the majority of the long-run costs are fixed costs. In addition it is likely that cases the Commission would be called upon to arbitrate will be cases where there are no established demand characteristics. The Commission notes that the use of TSLRIC is appropriate where:

“the service [is] well developed in the market and [has] established demand characteristics. The pricing principles may not be as appropriate for new services which are not well developed or for which there is a high degree of risk associated with uncertainty about demand.”⁴

In these circumstances, until the relevant markets mature, it may be preferable for the Commission to first approach pricing issues using its observations of the prices the access provider charges itself, and comparisons of pricing of similar transmission services within Australia.

⁴ ACCC, *Access pricing principles: telecommunications guide*, July 1997, p. 13