

Transmission Capacity Service

PowerTel Limited (**PowerTel**) welcomes the opportunity to comment on the Australian Competition and Consumer Commission's (**the Commission's**) discussion paper reviewing the declaration of the Domestic Transmission Capacity Service (**transmission service**).

Executive summary

This is an important issue for PowerTel and indeed all competitive carriers. Transmission services are fundamental building blocks to the competitive supply of a number of retail and wholesale telecommunications services (**downstream services**) within Australia.

The price paid for transmission services has a direct and significant impact on the ability of PowerTel and other competitive carriers to compete in the provision of downstream services with significant flow on effects to the long-term interests of end users (**LTIE**).

PowerTel acknowledges that the LTIE is best promoted through an open and genuinely competitive market. In this regard, PowerTel notes that some recent transmission price reductions have been driven through competition in the inter-capital transmission and CBD transmission markets.

Telstra remains the dominant provider in the metropolitan, regional and rural transmission markets. Access to transmission in these markets needs to be regulated in order to ensure a level playing field in the provision of downstream services and ultimately to ensure that the LTIE is adequately protected.

Consequently, PowerTel considers that the Commission should maintain the declaration for non-inter-capital routes.

PowerTel responses to the Commission's questions

PowerTel has provided in the table below a number of responses to the specific questions raised by the Commission in the discussion paper.

Question		PowerTel Response
	Market definition	
1	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 constitute an input?	<p>PowerTel agrees with the Commission's view that the relevant downstream markets for transmission capacity are national long distance and international call services, data related services and IP based services.</p> <p>PowerTel also considers that mobile services should also be identified as a relevant downstream market.</p>
2	What is the extent to which downstream services are concentrated on certain transmission routes?	<p>Downstream services are concentrated in areas where there is greater demand for those services. For example, there is greater demand for long distance call services on the Sydney-Melbourne and Sydney-Brisbane routes than other inter-capital routes. Consequently, there is often a connection between downstream services and certain transmission routes.</p>
3	To what extent do different transmission routes constitute different markets?	<p>PowerTel considers that the geographic markets for transmission include:</p> <ul style="list-style-type: none"> • inter-capital (with each inter-capital route constituting a separate geographic market); • CBD; • metropolitan; and • regional and rural. <p>Each of these markets is sufficiently distinct in terms of the level of competition present and should be treated separately when developing regulatory strategies.</p>
	Technologies used to provide transmission services	
4	Have the alternative technologies to fibre optic cable become more	PowerTel agrees with the Commission that substitutes to fibre optic

	<p>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?</p>	<p>cables for inter-capital transmission include (among others):</p> <ul style="list-style-type: none"> • satellite; and • digital microwave. <p>PowerTel also agrees with the National Bandwidth Inquiry findings that:</p> <ul style="list-style-type: none"> • microwave is used but to a lesser extent than fibre optic cable and only in selected regional and rural areas; and • satellite technology is more cost effective when used mainly as a broadcast medium or in remote areas. <p>PowerTel considers that fibre optic cable is the dominant form of transmission technology at the present time and is likely to remain that way, particularly with the relatively recent introduction of Dense Wave Division Multiplexing (DWDM).</p>
5	Are certain types of technology more viable on certain inter-capital routes?	See response to question 4 above.
6	Are certain types of technologies more viable on certain non-inter-capital routes?	See response to question 4 above.
7	Are there other technologies that may become available in the foreseeable future that are viable technologies to provide a wholesale transmission service?	See response to question 4 above.
Market entry		
8	Are there likely to be new entrants in transmission markets (i.e. both declared and non-declared) in the foreseeable future?	<p>The recent exit of IP1 and Nextgen from the inter-capital transmission market may indicate that there is more likely to be a net exit.</p> <p>However, it is PowerTel's intention to enter this market not through a network build but through a long-term lease arrangement.</p>

		Overall, PowerTel considers that the number of players in transmission markets (both declared and non-declared) will remain reasonably constant.
9	Would the exit of any carriers from transmission markets have ramifications for effective competition in particular inter-capital transmission markets?	See response to question 8 above.
10	Do barriers to entry exist in transmission markets? If so, what are they? Are there barriers to expanding in any inter-capital transmission market? If so, what are they?	PowerTel considers that cost is a significant barrier to entry in transmission markets. For inter-capital transmission markets, the main barrier is the significant cost of ploughing the fibre into the ground or taking out a long-term lease over the infrastructure of an incumbent.
11	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?	PowerTel considers that there are markets, such as the metropolitan, regional and rural transmission markets where Telstra is the dominant player (ie where there is, at best, a low level of competition). Consequently, PowerTel considers that the Commission should not remove any elements of wholesale transmission that are currently declared.
12	Does the Commission need to give consideration to declaring elements of wholesale transmission that are currently non-declared?	PowerTel does not consider that the Commission should give consideration to declaring elements of wholesale transmission that are currently declared.
	Excess capacity	
13	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?	PowerTel considers that DWDM has the capability to dramatically increase the capacity on inter-capital transmission links. Deployment of this technology necessarily involves costs but these

		costs are very low compared to the initial cost of deployment of the fibre.
14	On what routes is there considered to be a high degree of excess capacity?	PowerTel considers that each of the inter-capital transmission routes could have additional capacity turned up at relatively minimal cost. As a result, these routes could be considered to have a high degree of excess capacity.
Price movements		
15	As noted above, the results of the monitoring program suggest that the price of inter-capital 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?	PowerTel, as an access seeker, has experienced price reductions on inter-capital transmission routes.
16	Has the price of non-inter-capital transmission decreased since the entire service declaration was last reviewed? What is the reason this has/has not occurred?	<p>The price of non-inter-capital transmission has decreased since the service declaration was last reviewed but only by a relatively nominal amount.</p> <p>PowerTel considers that the principal reason for the lack of price reductions in non-inter-capital transmission services is because there is very little competition in this market, particularly in areas outside the CBD where Telstra is the dominant provider.</p>
17	How do wholesale prices for inter-capital 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?	PowerTel has no information to offer on this issue.
Profit margins		
18	Do wholesale prices for inter-capital transmission reflect underlying costs? If not, on which inter-capital routes is this the case?	PowerTel considers that inter-capital transmission services continue to be sold at prices that are in excess of costs.

19	Do wholesale prices for non-inter-capital transmission reflect underlying costs? If not, on which routes is this the case?	PowerTel considers that non-inter-capital transmission services continue to be sold at prices that are well in excess of costs.
Impact on efficient investment in infrastructure		
20	Would maintaining, varying or revoking the declaration have an effect on the investment decisions of new entrants or existing suppliers in the transmission market?	<p>PowerTel acknowledges that the LTIE are promoted more effectively through an open and genuinely competitive market and not through regulated access. In this regard, PowerTel notes that some recent transmission price reductions have been driven through competition in the market place with a number of players entering the inter-capital transmission and CBD transmission markets.</p> <p>However, PowerTel considers that there are markets, such as the metropolitan, regional and rural transmission markets where Telstra is the dominant player (ie there is a low level of competition).</p> <p>Continued declaration of the transmission service will act as an effective backstop and remains an important constraint on incumbent pricing.</p>
21	How would maintaining, varying or revoking the declaration affect decisions to invest in downstream markets?	<p>PowerTel considers that the Commission should maintain the declaration for all non-inter-capital routes.</p> <p>The continued declaration of the transmission service will act as an effective backstop and remains an important constraint on incumbent pricing. This will help ensure a level playing field.</p> <p>Competitive service providers that need to acquire transmission services from Telstra will not be disadvantaged when trying to compete in downstream markets. As a result, this should stimulate efficient investment in downstream markets.</p>
Monitoring program		

22	Should the monitoring program be extended or curtailed in any way?	<p>PowerTel considers that the monitoring program should be maintained because it provides the Commission with a view on price movements in inter-capital transmission markets.</p> <p>In addition, PowerTel considers that the monitoring program should be extended to include non-inter-capital transmission markets. This will enable the Commission to have visibility of those transmission markets where there is less competition (eg the metropolitan transmission market).</p>
23	Would publication of data collected under the monitoring program aid competition in the relevant markets?	PowerTel is generally in favour of any activity that increases industry transparency. However, PowerTel would need to see what the Commission intended to publish before commenting more fully.
Criteria for developing pricing principles		
24	What are considered to be the appropriate pricing principles for the transmission capacity service?	PowerTel considers that the appropriate pricing principle for the transmission services is TSLRIC as it will best promote the LTIE of downstream services.