



17 March 2009

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By email: chris.ratchford@acc.gov.au

cc: Ms Allison Russell
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Dear Mr Ratchford

Domestic Transmission Capacity Service

Vodafone Australia welcomes the opportunity to comment on the Australian Competition and Consumer Commission's (the Commission) draft Domestic Transmission Capacity Service (DTCS) report.

Vodafone supports the draft DTCS report on the basis of the reasons outlined in Vodafone's submission of 23 December 2008 to the Commission's discussion paper on DTCS. Vodafone agrees with the Commission's view that DTCS remains a vital input into a range of downstream services and that its importance is only likely to increase given the anticipated increase in demand for mobile broadband services. Ensuring sufficient data capacity is, therefore, critical to the delivery of mobile broadband services. Vodafone forecasts its demand for transmission capacity will increase by [c-i-c] over the next three years due to rapid growth in mobile voice and mobile data.

Vodafone also agrees with the Commission that optical fibre is still the preferred transmission medium. As Vodafone previously noted, alternative technologies cannot compete with optical fibre in terms of capacity either on capital-regional routes or on tail-end transmission. Given the anticipated increase in demand for transmission capacity services, Vodafone considers that alternative technologies will provide even less of a competitive constraint to fibre transmission on declared DTCS routes. For instance, Vodafone's extensive microwave transmission network is useful for short distance, low capacity solutions but it will not provide sufficient capacity to meet the anticipated growth of mobile broadband services. Capacity-intensive services such as mobile broadband require a fibre solution.

While demand for declared DTCS is increasing, Vodafone does not believe that sufficient incentives exist for new entry in markets where DTCS are currently declared. Such markets typically display

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natural monopoly characteristics. In most cases the incumbent supplier has economies of scale, excess capacity on its existing networks and is vertically integrated in downstream markets. Moreover, the customers that are served by such routes are small in number and the routes typically span large geographic areas. These factors act as a significant barrier to entry and make it economically inefficient to duplicate transmission capacity services. As such, Vodafone does not believe that there will be any new entry in the market for declared DTCS in the foreseeable future.

The increase in the demand and supply of capacity-intensive mobile broadband services means that access to transmission at reasonable costs is increasingly critical for mobile-only operators – such as Vodafone. Rising demand for mobile broadband services will significantly increase transmission operating expenditure for mobile-only operators. Vodafone is concerned that in the absence of declared DTCS the incumbent would have a strong incentive to exploit its market power in transmission into downstream markets. The existing declaration has helped Vodafone obtain access to declared DTCS on a reasonable cost basis, enabling it to provide innovative mobile voice and mobile data services. Even so, Vodafone notes that more than [c-i-c] of its non-microwave transmission outside metropolitan areas is currently purchased from Telstra.

Vodafone notes emerging technologies such as Long Term Evolution (LTE) will improve the quality of broadband services offered to customers. However, technologies such as LTE and Vodafone's roll-out of 3G HSPA will also increase the demand for transmission. Therefore, declared DTCS will remain a critical input for downstream mobile broadband services well into the future.

Vodafone believes the continued declaration of DTCS is necessary to promote competition for mobile voice and mobile data services, and to support continued investment and innovation in mobile broadband services. Declaration of DTCS until 31 March 2014 will ensure that customers have access to a broad range of mobile broadband services and be in the long-term interest of end-users. Vodafone would welcome the Commission varying the declaration with an expiry in 5 years to ensure that the intention of the Final Exemption Decision is fully effected.

Yours sincerely

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