

Engin response to ACCC discussion paper

Telstra's Undertakings for the PSTN Originating and Terminating and LCS Access Services

June 2006

Summary

One of the main reasons engin entered the broadband telephony market was the relative certainty that there would be progressive reductions to Public Switched Telephone Network originating and terminating (“PSTN OTA”) rates into the foreseeable future. These reductions would allow existing telecommunications providers and new entrants the ability to commit to offering lower cost telecommunication services to consumers and businesses. In recent times the cost of telecom services have been decreasing worldwide and with more efficient technologies being introduced this trend should continue.

This market certainty has seen many Broadband Telephony, Voice over Internet Protocol (“VoIP”) and other niche businesses enter the Australian market and offer compelling and innovative telephony solutions to Australian consumers, especially rural Australia.

The latest Telstra proposal for PSTN OTA and local service call (“LCS”) prices through the 2007 and 2008 financial years seem to be arbitrary in nature and biased towards Telstra’s own business model. Adoption of the Telstra proposal would be detrimental to competition in the Australian Telecommunications market. This is evidenced by the reduction in the LCS and pre-select OA prices that will favour Telstra resellers, and the increase in the PSTN TA and PSTN non-preselect OA prices will be detrimental to businesses such as facility based network operators and VoIP providers.

The proposed effective doubling of PSTN OTA rates from July 1, 2006 would have a detrimental impact on the competitive local and national call landscape that is developing within Australia. The result will be that the end-user, of course, will be the loser, as competitors will need to increase charges to absorb the rate rises. What’s more, Telstra has not presented any convincing arguments to justify the increase and seems to have done an arbitrary redistribution of cost across its services.

The proposed pricing turnaround will lead to uncertainty and confusion in the market. Not only will this move challenge the new entrants business models, it will deter potential entrants from building their business models on innovative and aggressive price offerings.

Currently, local or national landline calls through most broadband telephony providers are now priced around the 10 cents un-timed, anytime mark. For the Broadband telephony companies to stay true to their business models post July 1, these rates would need to move closer to 20 cents for local calls and higher for national calls particularly in rural areas.



This is a big step backwards for Australian consumers and businesses, in particular to those in rural areas.

Over the past ten years Telstra's revenues have shifted from being dominated by local and long distance PSTN revenues to now Mobile phone and broadband revenues. This shift will continue to gain momentum as it has in other developed countries.

Although there is a shift in how telecommunications minutes are carried, it is widely accepted that the total number of minutes in Australia are growing by approximately 10 percent per annum.

In 1995 Telstra's revenues totalled \$15 billion per annum and now exceeds \$22 Billion. During this period Telstra's fixed line and access revenue has remained reasonably flat at approximately \$7 billion per annum.

Local and National fixed line call revenues have dropped from approximately \$5 billion to \$2 billion. This is primarily due to the revenues generated by Dial up internet and fixed to fixed calls being more than replaced by Fixed to Mobile, ADSL and cable internet revenues.

Telstra's international direct dial charges have dropped dramatically during this period due to the popularity of international calling cards. International termination rates are substantially less than domestic termination rates and most calls are carried over VoIP. This allows the Skype's of this world to take strong footholds in countries like Australia, due to slow moving incumbents and take Australian call revenues offshore.

If Telstra's proposal is successful, post July 1, it will be cheaper for engin to connect a call to a farmer in Colorado, USA than it would be to connect a farmer in Kalgoorlie in Western Australia. This should not be the case.

How can Telstra significantly reduce international call termination rates to meet the competitive environment of the international market and then on the other hand increase domestic Termination rates and reduce competition?

Doubling the PSTN OTA rates in Australia would send a clear message to consumers that the costs of telephony will not continue to fall in Australia like they are in the rest of the developed world.

engin has only answered selected questions in the Discussion paper relevant to fostering healthy competition in the Australian Telecommunications market .

Selected answers to the “Questions to Submitters”.

1 The proposed WACC;

Having regard to the regulatory criteria in s152AH of the Act, are the costs of under estimating the WACC greater than those of over estimating the WACC?

The costs are greater to over estimate the WACC than under estimate the WACC. The reason for this is the fact that most the costs associated with the network are sunk costs. Future costs are incremental costs and it is widely accepted that network-running costs are dropping significantly every year.

Having regards to the regulatory criteria in s152AH of the Act, and to Telstra’s supporting submissions, are there any reasons why the ACCC should alter its views on appropriate WACC?

We agree that ACCC should not alter its views on appropriate WACC.

2 Volume forecasting

Are Telstra’s estimates of declining use of PSTN services appropriate?

No, the estimates of declining use may not be appropriate as the increasing popularity of VoIP may reclaim lost ground in PSTN minutes caused by the use of mobile phones in recent years

Should alternative forecasts be used to calculate PSTN access charges?

Yes, there will be an increase in voice traffic in the future. So the total industry growth should be considered not just an isolated component of the industry that may have an uncertain future be it positive or negative.

3 Telstra’s proposed “packaged” approach to the derivation of PSTN OTA and LCS charges.

Is it appropriate to set prices for PSTN OTA and LCS as a package as proposed by Telstra?

No, it is not appropriate, as it seems to have no real basis other than to protect Telstra’s business interests at the expense of true competition in the Australian Telecommunications industry.

If so what are the likely benefits to the industry and the end users?

As stated above there are only benefits to Telstra and it’s resellers and not the industry or the end user.

What is the likely impact of the proposed charges on future VoIP prices?

VoIP pricing will have to increase for local, national and in particular for rural areas in order to absorb the increase in the pricing of the PSTN OTA and LCS charges.

As stated earlier, currently, local or national fixed line calls through most broadband telephony providers are now around the 10cent untimed, anytime mark. For Broadband telephony companies to stay true to their business models post July 1, these rates will need to move closer to 20 cents for local calls and higher for national calls particularly in rural areas.

4 The extent of averaging/de-averaging.

Is it appropriate that Telstra set access charges on the basis of a partial de-averaged approach?

No, this has never been used in any of Telstra’s previous undertakings and should not be used in the PSTN and LCS undertaking.

It is very costly to interconnect to the Telstra network and to set access charges on a partial de-average basis, appears that Telstra is double dipping by increasing PSTN TA particularly to non aligned providers who provide a service to rural customers whilst continuing to receive the Universal Service Obligation (“USO”) funding that has been set up for ensuring rural consumers receive the same treatment as the metropolitan consumers.

What are the implications of such an approach on the LTIE objectives of promoting competition and sending appropriate price signals for the efficient use and investment in existing and new networks?

The implication will be that there is no clear direction for future pricing, therefore new entrants will be very hesitant to enter the market, invest in new or existing networks, provide aggressive pricing models like we have seen over recent years with VoIP providers in order to promote competition.

5 PSTN OA Two Part Tariff.

Will end- users benefit from the proposed PSTN OA two part tariffs?

No, the end-user will not benefit as the Telstra aligned businesses will benefit over the rest of the industry. This may lead to a short benefit to the end-user but as the competition is pushed out of the market Telstra has the opportunity to increase prices and the end-user will suffer.

What will be the impact on the access users?

Refer previous question's response.

Are there any issues associated with charging different access prices for preselected PSTN OA Vs PSTN OT and non-preselected PSTN OA?

Yes, the Telstra aligned businesses will benefit and the others, who are not using the Telstra network, will suffer.