

ECONOMUSE

How long will MTAS be necessary?

What cost model is needed for the mobile terminating access service (MTAS)? Now is the time to bring the costing of mobiles into line with the fixed network.

In the near future we may not need to model the costs of voice and SMS at all.

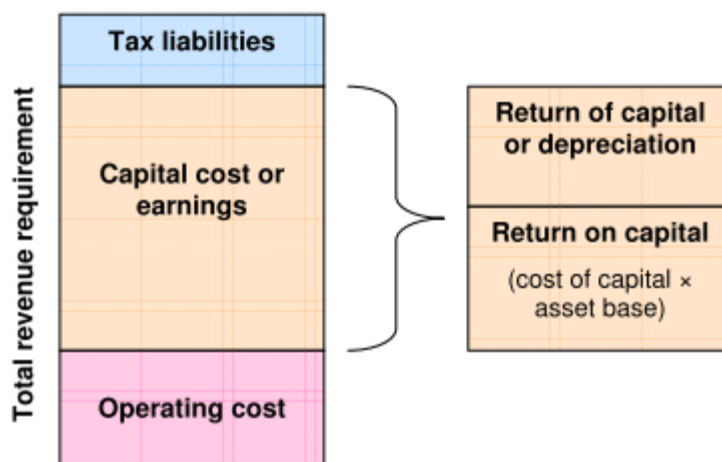
The Australian Competition and Consumer Commission (ACCC) recently published a [discussion paper](#) seeking views on how it should regulate the price of terminating voice calls (and also, for the first time, SMS) on mobile networks. (*CommsWire*, 5 August 2014).

The original cost model for mobiles was built for 2/2.5G mobile networks for the ACCC in 2007. The three Australian mobile networks now largely carry voice traffic and SMS over 3G. They also have 4G networks which are currently confined to data carriage – although that will change during the 5 year term over which the regulated termination prices to be determined by the ACCC will apply.

The ACCC is rightly concerned that any new bottom-up cost model based on 3G could soon become redundant. It considers that using “actual costs” to model costs from the top-down may be an option. It is – but this seems to me to be the same as the Building Block Method (BBM) the ACCC is now using in the fixed network.

The ACCC and others became frustrated with bottom-up cost models which involve a complicated thought experiment in which the network is rebuilt each time it is costed. The ACCC decided in 2011 to shift from bottom-up cost modelling (and also from Retail Minus) to the BBM for all fixed services (the ULLS, WLR, PSTN OTA, LCS and LSS services).

For the fixed network, the BBM is based on Telstra’s Regulated Asset Base (RAB) as illustrated below:



Once the opening value of the Regulated Asset Base (RAB) is established (not difficult for the NBN), it becomes simple.

The method takes the asset base for each class of asset, subtracts depreciation and adds investment to update the RAB; from which the return of capital (depreciation) and return to capital (based on the WACC) can be derived.

In the current Discussion Paper, the ACCC's main reservations about turning to actual costs (the BBM) are that it would have to do it for three operators (which raises issues of different accounting practices) and commercial sensitivity (reducing outside scrutiny of costs). But, the same issues arise in the energy sector where the BBM has been applied to more operators over many years.

The Discussion Paper again canvasses and dismisses a Bill-and-Keep (BAK) approach between mobile operators which would abolish their MTAS termination charges. Even if voice traffic flows are not balanced between mobile operators, BAK makes sense if terminating costs are low. But this can lead to arbitrage with operators turning fixed-to-mobile calls into mobile-to-mobile calls to avoid termination payments.

With 4G (where voice will be IP based) and the NBN, there is no need to distinguish between voice and data as all traffic is bytes. There is also no need to restrict BAK to calls between mobile networks – the cost of terminating a call or byte on a mobile network is the same whether it originates on a fixed network or a mobile network.

The tried and tested way of exchanging bytes is peering and transit – which are unregulated. There are no termination fees for voice and SMS now – if they are carried as bytes over apps like Skype and Whatsapp. In this emerging context, there is no need to model costs or to regulate termination – although the jury is still out on whether discriminatory practices need to be regulated (net neutrality).

The only exception is NBN Co. which as a wholesale operator can offer neither BAK nor peering because it has no retail customers to bill. But it does charge for bytes (with the CVC proxy hopefully being replaced with a more sensible cents/GB fee) and should continue to also charge a fixed monthly fee (where a simpler AVC structure would be nice) – so a BBM approach is still relevant for the NBN.

When the first MTAS cost model was built in 2007, data was noise – just 3% of mobile usage (footnote 34 of Discussion Paper). Now voice is becoming the junior partner and with IP voice is data. Why distinguish between voice and data when that becomes the case (4G)?

In the meantime, let's use the BBM approach for all three mobile operators (they all have different cost structures). This could include the transition to 4G; although the need to single-out MTAS (voice and SMS) will increasingly become totally unnecessary. The ACCC should step aside before that point is reached.