

Appendix A: Questions on which submissions are sought - Exetel

Q1. Do you consider the ACCC's proposed assessment framework is appropriate for assessing whether declaring wholesale ADSL services would promote the LTIE? That is, will the proposed assessment framework assist the ACCC in assessing whether declaring a service will promote competition in markets for telecommunications services, achieve any-to-any connectivity and encourage efficient use and investment in infrastructure by which the service is supplied?

A1. Exetel agrees that the ACCC's proposed assessment framework is appropriate and that declaring wholesale ADSL services will promote the LTIE.

Q2. What are the relevant markets for the purpose of this inquiry and the application of the LTIE test?

A2. Exetel recommends that the relevant markets for the purpose of this inquiry should consider both the competitive (metro) and non-contested (regional/remote) wholesale markets. It should consider the resultant impact of the different wholesale pricing models obtainable from Telstra Wholesale and its wholesale competitors for ADSL services on the retail offers made by the various ISP's.

Q3. Is it appropriate to consider both wholesale and retail markets?

A3. Exetel recommends that the ACCC should consider both the wholesale and retail markets in all areas of Australia.

Q4. What is your view about the substitutability between different broadband products? What is the substitutability between fixed - line broadband technologies with different data rates?

A4. Exetel's view about the substitutability between different broadband products first depends on the availability/choice of the broadband product and then the end users use of the service. The interplay of speed and plan data allowance is heavily influenced first by speed availability and then by household occupancy and demographics. Assuming the house has access to the NBN's FTTH service giving the end user the ultimate choice of speeds from 12/1Mbps to 100/40Mbps, the next consideration will be the applications each of the household occupier's choses to use and when. The concurrency of broadband service usage will determine the necessary speed tier to ensure acceptable performance for all users. The total consumption of data for the household per month will determine the minimum plan size required. Exetel believes most households fall into three types:

- a. Pay for the least speed/allowance the end user can get away with = budget conscious
- b. Pay for the best combination of speed/allowance that just meets their needs = value seeker
- c. Pay for the highest speed/allowance available = set and forget

The three cohorts are shown by Exetel's NBN experience, in that, our most popular plans (c-i-c%+ of total base) are as follows:

| Speed/Allowance | 100GB | 500GB | Unlimited |
|-----------------|-------------------|-------------------|-------------------|
| 12/1 | Most Popular = a. | | |
| 25/5 | | Most Popular = b. | |
| 100/40 | | | Most Popular = c. |

Exetel's view is the concept of "substitutability" does not actually exist in a market that is slowly evolving from ADSL1 to ADSL2+ to NBN and NBN like services. Once the newer technology becomes available, the demographic aspects of the end user will determine the rate of adoption of the newer technology. And then, as shown above, a choice will be made by the end user based on a combination of budget and usage and whether they chose to compromise on performance or not.

Q5. Are there separate but related markets for high speed fixed-line broadband services and superfast broadband services? What evidence exists to support this?

A5. Exetel believes that the degree of market separation entirely relates to service availability. Our view is that most end users will prefer a service that offers higher speeds and more reliable performance, if available. However, only a relatively small number of end users currently have a choice of both high speed and superfast broadband services concurrently, and this diminishes as the NBN disconnection date draws near. So we would attest that the markets for these two service classes are in effect separate. The degree of relation between these markets is that the high speed broadband services acts as a stepping off point to

the end users new superfast broadband service when the end user chooses to or is forced to migrate to it. Therefore, the relative similarity or dissimilarity of wholesale costs between ADSL and NBN services is an important factor for the ISP to consider. The evidence to support this is demonstrated by the publicly available information on ADSL subscriber numbers and the NBN's roll-out and service activation rates.

Q6. Are wireless broadband services (offered over mobile broadband, fixed wireless or satellite) substitutes for high speed fixed-line broadband services and if so, to what extent? What evidence exists to support this??

A6. Exetel's view is that the majority of wireless broadband services today (either as dedicated Mobile Broadband data only services or using 3/4G Mobile Voice services data tethered) are currently acquired as complimentary services to the customer's fixed-line broadband service to be used outside of the home or workplace. Exetel's view is that this will change in the future with the emergence of 5G, which will provide a real substitute for superfast broadband services (NBN).

Q7. Is it appropriate to consider the relevant markets on a national basis or should they be defined on a more narrow geographic basis? If so, what should that be and why?

A7. The relevant markets should be considered nationally and on the bases of contestability from alternative wholesale suppliers.

Q8. What do you consider to be the state of competition in the high speed fixed-line broadband markets?

A8. Market consolidation over the past couple of years has led to a reduction in the amount of real choice and product and service differentiation available to the end user. Even though the former retail brands appear to be available as a 'choice', recent retail market plan changes have seen a 'harmonising' of retail offers by TPG and Vocus 'groups'. As the large four providers own 91% plus of the market it is self-evident that the market structure is faulty.

Q9. Is there effective competition at the wholesale level of the market, and if so why? Please provide subscriber numbers and any market share information to illustrate this, including any information about competitive supply of wholesale ADSL services.

A9. There is effective competition at the wholesale level of the market where multiple wholesaler choice exists. This is demonstrated by Exetel's subscriber numbers for ADSL and Phone Line bundle services (c-i-c % are on the Optus Wholesale ADSL/ULL network where available) and for our stand alone ADSL services (c-i-c % are on the TPG Wholesale ADSL/LSS network where available). The wholesale cost of the ADSL, Phone Line and AGVC from the alternative wholesale providers demonstrates savings of between c-i-c % and c-i-c % for the ADSL part, c-i-c % for the Phone Line part and greater than c-i-c % for the AGVC part as compared to the ACCC declared rates for the Telstra Wholesale equivalent services.

Q10. Is there effective competition at the retail level of the market? Please provide market share information to illustrate this, including for customers on-net and off-net subscriber numbers. Are access seekers more successful in the retail market when supplying services on-net?

A10. Exetel's market experience indicates that when there is a multiple of network based competitors (e.g. ULL Band 2) there is a more natural distribution of supplier choice and competitiveness of on-net plans offered to end users. However, the recent market consolidation has seen a retreat from the heights of retail competition seen between 2 and 5 years ago. The network owners are now moving into an earn-out phase to maximise their return on investment in their ADSL networks prior to the arrival of the NBN. As Exetel is a pure reseller of other network owner's infrastructure, we have performed well in areas where the Optus Wholesale ADSL/ULL network is available. Currently, approximately c-i-c % of our ADSL services are on the Optus Network and the other c-i-c % on the Telstra Network. This demonstrates the real ability to compete when we have an unconstrained wholesale supplier in Optus versus the default supplier of Telstra in off-net Optus locations. This is borne out in our retail plans where we are forced to sell Telstra based plans at between \$10 and \$20 more per month to cover the additional cost of using Telstra as compared to Optus.

Q11. Are there any geographic areas where competition at the wholesale or retail levels is considered to be effective, and if so where are these areas and why is competition considered effective?

A11. Competition exists in all geographic areas of Australia at the retail level. Where there is a choice of wholesale supplier, it could be called effective competition as the ISP would make reasonable margins and

offer plan/allowances that compete with the vertically integrated retail competitors. Where there is only one choice of wholesale provider, the retail ISP may be able to differentiate on plan price, allowance or service levels but their retail margins are generally lower/loss making if they chose to have a flat national price. In the case of Exetel, we charge higher prices where we only have the Telstra ADSL network and therefore could be considered to be less competitive/effective in the price/allowance choices/comparisons made by prospective new customers.

Q12. Are there any particular barriers to entry impacting competition in the wholesale or retail markets for high speed fixed-line broadband services?

A12. Yes, there are many barriers to entry. In the wholesale market, the return on investment on network build/expansion/upgrade has seen the non-Telstra networks stall at a relatively small percentage of ESA's. In the retail market the reduction in the number of ISP's in Australia over the last 5 years demonstrates the difficulty in carving out and maintaining a niche in the remanent 9% of contestable market not already owned by the oligopolists.

Q13. Are there any implications for competition of the price differentials between on-net and off-net price ADSL services?

A13. Yes, on-net locations (where wholesaler choice exists) provide competition and off-net locations (where Telstra is the only choice) provide less/no competition from Exetel's perspective. As demonstrated by our retail plan offerings.

Q14. Do you consider that declaration of the wholesale ADSL service will promote competition? How is wholesale ADSL being used for this purpose?

A14. Exetel agrees that the declaration of the wholesale ADSL service does promote competition. Exetel uses Telstra wholesale ADSL services to provide competitive plans/allowance compared to Telstra Retail plans today in Zone 1. In Zone 2/3, Exetel's plan are still competitive but to a lesser degree.

Q15. Do you think competition concerns remain in the relevant market for wholesale ADSL since the 2012 declaration, or would reemerge if the wholesale ADSL service was not declared? What is, or would be, the nature of these concerns and how significant are they?

A15. Exetel believes that the current declaration provides certainty of cost. If the services were not declared, particularly in un-contested areas (Zone 2/3) the prior concerns will re-emerge. These concerns would centre on retail margin price squeeze actions from Telstra. This could affect at least c-i-c % of Exetel's ADSL business.

Q16. Are commercial wholesale ADSL terms and conditions set with reference to those in the FAD, or independently? Do the terms and conditions negotiated inhibit competition in any way, including through restricting the nature of service offerings? Are you aware of any discrimination occurring between prices offered to different access seekers?

A16. Our commercial wholesale ADSL terms with Optus and AAPT/TPG are set independently from the FAD. Our commercial wholesale ADSL terms with Telstra Wholesale are based on the FAD. The terms of the FAD do not necessarily restrict the nature or effective cost of services offered. Where Telstra Wholesale does offer alternative commercial constructs, lower effective costs (as compared to the stand alone FAD prices) can be achieved, however, this only occurs in areas where there is infrastructure competition (Zone 1) and the savings are quite marginal compared to the FAD and quite poor when compared to Optus Wholesale. We are unaware of any discrimination occurring between FAD prices offered to different access seekers, though this does not mean it does not happen.

Q17. Are there any instances whereby delays in the negotiation of revised wholesale DSL charges following Telstra's retail price changes have affected the ability of access seekers to compete? If so, please specify the duration and impact of the delays.

A17. No.

Q18. How do the wholesale terms and conditions negotiated with Telstra compare to those from other providers of wholesale ADSL? Please detail the differences.

A18. Telstra Wholesale's offers are less favourable than Optus and AAPT/TPG. Telstra Wholesale attributes the FAD as the limiting factor in providing a competitive offer compared to Optus and AAPT/TPG. Exetel achieves significantly lower costs for ADSL, Phone Line and AGVC from Optus and AAPT/TPG as compared to Telstra Wholesale. For example, the Optus ADSL/Phone bundle wholesale cost (including discounts) is \$ c-i-c /month (for year 1) with an \$ c-i-c /Mbps AGVC versus Telstra Zone 1 ADSL/Phone bundle wholesale cost of \$ c-i-c /month with a \$ c-i-c AGVC. Hence why c-i-c % of Exetel Zone 1 bundle customers are on the Optus network.

Q19. Do you consider that it is imperative to have a pre-existing subscriber base prior to the complete rollout of the NBN? If so, will an existing market share provide a material comparative advantage? If so, how? Are customers switching to different NBN providers and are there any barriers to customers wanting to switch to a different service provider?

A19. Yes, it is imperative to have a pre-existing subscriber base prior to the complete rollout of the NBN. And yes, an existing market share will provide a material comparative advantage. Being an established ISP/RSP with the pre-existing market brand awareness, staff, systems, financial resources, experience etc. to compete in the NBN world based on the prior ADSL world leads to scale advantages, lower cost of sales and wholesale bargaining power for the contestable elements of the product input. Customers are switching to different NBN providers off Exetel provided ADSL services, though that represents a minority (c-i-c - c-i-c %). Exetel does experience some NBN churn to other NBN RSP's. Typically the churn barrier in the NBN world is lower. However, there is anecdotal evidence of Exetel's larger competitors pre-seeding their ADSL base with NBN compatible modems and 'automatically' moving customers off their ADSL service and onto an NBN service. Whilst this is a serious concern for smaller RSP's such as Exetel, effectively reducing the contestable market, Exetel suspects this will be of an even greater concern in the HFC footprint of the NBN, where Optus and Telstra will abuse their monopoly position to destroy competition from other RSP's and reduce consumer choice.

Q20. Is wholesale ADSL being used as a vehicle to achieve a pre-existing subscriber base prior to the complete rollout of the NBN?

A20. Yes. Exetel continues to acquire ADSL customers prior to the NBN becoming available. We offer our customers a free transfer from the ADSL service to the NBN service and we waive any ADSL early termination fee (even if we incur it from our wholesale ADSL supplier). For Exetel, in the main, an NBN customer represents a higher retail margin, so our core focus is on acquiring new NBN customers (hence our advertising is solely focussed on this), most ADSL customers acquired are through our website and inbound sales team where ADSL is the only option available to the customer. Our Service Qualification process (SQ) prioritises NBN first, other NBN like services second (OptiComm, OPENetworks, LBNC0 and AAPT FTTB etc.) and ADSL third.

Q21. Are there any other potential risks to competition that may arise in the transition to the NBN if wholesale ADSL is not regulated? If so, what are they?

A21. If the wholesale ADSL service is not regulated, there are three possible scenarios in price – Up, Down or the Same. If the cost goes up for unregulated ADSL, an ISP who has not on boarded with the NBN could be severely damaged and they might exit the market and lessen competition. If the price remains the same as the regulated price for the ISP, one of their competitors could get a lower price possibly and they might be negatively affected. If the general ADSL prices go down to compete with the like of Optus and AAPT/TPG, the ISP would be encouraged to promote ADSL more widely, potentially defocussing on NBN.

Q22. What impact would declaration have on the objective of achieving any-to-any connectivity?

A22. None.

Q23. Are there still opportunities for efficient investment in competing DSL networks – in terms of either expansion of the existing DSL footprint or increased investment in areas that have already attracted ULLS/LSS based competition? Is this likely to change over time? How would declaration of the wholesale ADSL service impact this?

A23. Yes, there are still opportunities for efficient investment in competing DSL networks in both increasing coverage, backhaul capacity and product features. This is demonstrated by Optus Wholesale where their DSLAM infrastructure serves both residential ADSL services as well as business grade symmetrical DSL services. This dual mode approach is mirrored by AAPT/TPG, improving the economics of their investments. The rate of this incremental investment seems to be driven by the deployment of the NBN

(reducing the investment) and the increasing customer data usage (increasing the investment in backhaul capacity from the DSLAM). Declaration of the wholesale ADSL service will provide the network builders a more certain environment to invest in.

Q24. What impact does the NBN rollout have on investment in, or use of, wholesale ADSL services as well as incentives to invest in ULLS and DSLAM infrastructure?

A24. The NBN rollout (for Exetel) represents a margin accretive opportunity to acquire new customers and grow our business. It means we will rely less on Telstra's ADSL service and those provided by Optus and AAPT/TPG. As stated above, we see Optus and AAPT/TPG continue to invest in their infrastructure – however, it seems much more targeted to areas of real concern where churn out to Telstra's network is evident due to their network congestion or lack of free ports.

Q25. Could declaration of the wholesale ADSL service encourage efficient investment in infrastructure that will be used to interconnect on the NBN or provide value-added retail services? If so, please outline how. Could declaration encourage efficient use of NBN infrastructure?

A25. For Exetel, the declaration of the wholesale ADSL service will continue to encourage us investing in our core network infrastructure, systems and people as we do today. Anything that worsens the wholesale cost of the Telstra ADSL services will dramatically impact our business. The infrastructure, systems and people Exetel has today are all used for the NBN and NBN like services. As suggested above, if we could achieve lower costs for the declared ADSL services, this financial benefit would see incremental investment in the Exetel business.

Q26. Are there any issues in relation to the technical feasibility of supplying the wholesale ADSL service that the ACCC should be aware of?

A26. For Exetel, none. For new entrants, many.

Q27. Is the current service description appropriate or have there been changes in either the ADSL technology or relevant markets that necessitate a change to the current wholesale ADSL service description? Should any changes be made to the service description? What are these changes and why are they required?

A27. Yes, the current service description is appropriate.

Q28. Should the service description cover wholesale ADSL services nationally or be limited in geographic scope? If it is to be limited, on what basis and to what areas?

A28. Exetel believes the service description should cover wholesale ADSL services nationally.

Q29. What is the appropriate duration for the declaration? Why?

A29. Five years. This will allow for the completion of the NBN (we hope) and therefore making the supply of ADSL service redundant and the declaration would cease to have any effect.

Q30. Is there any merit to aligning the declaration period for wholesale ADSL services with the forecast completion date of the NBN? Please provide reasons why or why not.

A30. Yes, there merit in aligning the declaration period for wholesale ADSL services with the forecast completion date of the NBN. Assuming their forecast can be believed. Exetel would prefer a 5 year period which currently extends beyond the forecasted completion date of the NBN. If the NBN is again delayed, Exetel would recommend that the ACCC extend the ADSL declaration again.

Q31. Having regard to the potential costs of declaration listed above, and the issues raised in relation to the coverage of the service description, would declaration of a wholesale ADSL service lead to a substantial increase in regulatory burden? If so, please provide details and where possible evidence of the likely change in regulatory burden, including any particular costs that the ACCC should take into account.

A31. The declaration of wholesale ADSL services would not lead to a substantial increase in regulatory burden for Exetel.

Q32. Are there any particular costs that the ACCC should take into account when establishing the regulatory burden associated with declaring a wholesale ADSL service?

A32. There are no additional costs that the ACCC should take into account when establishing the regulatory burden associated with declaring wholesale ADSL services for Exetel.

Q33. Are there any implications for other regulatory processes that the ACCC should consider as part of its wholesale ADSL declaration inquiry?

A33. Exetel cannot see any other implications for other regulatory processes that the ACCC should consider as part of its wholesale ADSL declaration inquiry.