



CCC Submission on MTAS Pass Through

Context

In the event that the ACCC determines that an essential aspect of the regulation of MTAS involves addressing “retail pass through”, CCC submits the below as its preferred approach. Individual operators have a variety of view as to the relevance of “retail pass through” in the formulation of an FAD for MTAS. Nevertheless, should the Commission determine that a mechanism is required, the following is the agreed CCC stance.

Linking FTM retail reductions to MTAS reductions.

Firstly, accepting that the ACCC regards a reduction in the regulated MTAS rate as necessary, and a FTM pass through safeguard mechanism is also an element to promote the long-term interest of end-users, then it follows that a “linked approach” be adopted. That is, an approach that which links reductions in the MTAS rate with FTM rates provides the appropriate pass through safeguard and is preferable to a retail-minus approach.

The linked approach should operate as an incentive mechanism rather than a regulatory instrument. That is, it should set a retail FTM price target for integrated operators rather than mandate a specific level of FTM pass through. In implementing the FTM pass through safeguard mechanism, the same glide path should be applied for MTM and FTM MTAS in all cases.

Glide Path for Non-integrated fixed and mobile Operators

For operators that provide FTM retail services but do not also provide MTAS (non-integrated fixed operators) and for mobile-only operators, a glide path from the current MTAS rate to the “end-point” would apply *without* a pass-through threshold test requirement. This is because non-integrated fixed/mobile operators do not have the ability to cross-subsidise fixed and mobile offerings by utilising their market power in relation to MTAS. Further, the floor for the MTAS rate should be established for the service – ie the “end point” to any glide path.

The approach is illustrated in the table below. For illustrative purposes, it is assumed that a glide path to the “end-point” is adopted, with the annual rate of reduction in the MTAS set at a series of annual reductions (x, y & z).

Glide path for non-integrated carriers (\$ per minute)

	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2013	1 Jan – 30 Jun 2014
Glide path for the MTAS rate	$0.09 - x$	$0.09 - x-y$	$0.09 - x-y-z$
Floor price for MTAS	$0.09 - x-y-z = \text{MTAS}_{2014 \text{ end-point}}$		

Dealing with Fixed/Mobile Integrated Operators and Incentives

The elements of the mechanism to link retail FTM rates with MTAS for **integrated carriers** (eg Telstra and Optus) would include:

- > the initial threshold level for retail “retail FTM prices” (*based on the average FTM revenue per minute and average retail FTM call type*);
- > Integrated carriers whose “retail FTM prices” is lower than threshold will be entitled to the MTAS rate based on a glide path from the current rate down to the end rate; and
- > Integrated carriers whose “retail FTM prices” is greater than or equal to the threshold will have the MTAS rate maintained at the current MTAS rate.

Given the experience of a lack of retail FTM pass through over the past seven years, particularly in the case of Telstra, a sufficiently low threshold must be set for the ACCC to have confidence that pass through has occurred. The initial threshold should be set at 25 cents per minute (or by reference to a comparable average residential retail call benchmark), based on the fact that Telstra’s FTM price should have reduced by at least 12 cents per minute (ie. FTM rate should have moved from 38 cpm to 26cpm) as a result of the reduction in the MTAS rate (ie. 21 to 9 cents per minute) over the seven year period.

The proposed FTM pass through safeguard mechanism is illustrated in the table. Again, it is assumed that there is a glide path to the “end-point”, with the annual rate of reduction in the MTAS set at x , y and z . The value of x , y and z and the end point will depend on what the ACCC considers is appropriate having regard to individual stakeholders’ submissions. The CCC does not indicate what those values should be as this is not within the scope of this submission.

Using Record Keeping Rules

The ACCC will need to expand its use of the current “imputation testing RKR” as the appropriate starting point to gather evidence to determine whether or not pass through has taken place and if so, to what extent. The output of this RKR would then be assessed on a quarterly basis and if there is sufficient FTM retail pass through to meet the threshold to trigger a MTAS reduction, then in the next year, the integrated operator can take the benefit of the glide path. This process would be reviewed every rolling 2 quarters and adjustments to MTAS made accordingly.

Incentive mechanism for Integrated carriers for FTM pass through (\$ per minute)

	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2013	1Jan – 30 Jun 2014
Threshold – weighted average FTM revenue per minute	0.25*	0.25 - x	0.25 – y
MTAS rate per minute if threshold not met	0.09	0.09	0.09
MTAS rate per minute if threshold met	0.09 – x	0.09 –x- y	0.09 – x-y-z
Floor price for MTAS	0.09 – x-y-z = MTAS _{2014 end-point}		