



# **INQUIRY INTO FINAL ACCESS DETERMINATIONS FOR FIXED LINE SERVICES**

**SUBMISSION TO THE  
AUSTRALIAN COMPETITION AND  
CONSUMER COMMISSION**

SEPTEMBER 2019

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## Fixed line services

Vodafone Hutchison Australia (**VHA**) welcomes the opportunity to respond to the ACCC's Draft Decision for the *Inquiry into final access determinations for fixed line services*.

The ACCC's Draft Decision states that "it is not at present appropriate to review FTAS [Fixed Terminating Access Service] pricing in isolation of other declared fixed line services or with particular reference to MTAS pricing as a benchmark" in response to VHA's concerns about the level of FTAS prices and its ratio to Mobile Terminating Access Service (**MTAS**) pricing.

The ACCC cited several reasons for its view including that it felt that the "review of pricing of one declared fixed line service in isolation of the other declared fixed line services risk unduly advantaging some access seekers over others".<sup>1</sup> However, that is exactly the outcome that will occur if the ACCC elects to hold the FTAS price constant and then decides to lower the MTAS price in that access declaration. Specifically, horizontally integrated players will face a significantly lower cost to terminate mobile calls on their own fixed networks compared to VHA.

We are concerned by the different approaches to pricing that the ACCC appears to be taking for fixed line services and the MTAS. The Draft Decision cites the "potentially significant regulatory costs to the industry" as reason for not undertaking a reconsideration of the Fixed Line Services Model (**FLSM**). The Draft Decision does not contemplate other methods to implement cost-based pricing. The ACCC's MTAS Discussion Paper expresses concern that building a cost model is "extremely time and resource intensive",<sup>2</sup> however it indicates that "rolling over the MTAS price does not take into account the likely decline the cost of providing the service since the last FAD was made".<sup>3</sup> Instead of developing a cost model, the ACCC is considering options such as the use of international benchmarking to price the MTAS.

International benchmarks show that the price of the FTAS in Australia is high in general and high relative to the MTAS (see Figure 1). In part, this is due to differences in the methods used for access pricing in Europe and those used in Australia. The ACCC's pricing principles permit cost recovery of fixed and common costs whereas this is not permitted under the European approach. The European Commission recommends that regulators use a "pure LRIC" methodology for both fixed line services and mobile termination services. In Australia regulated prices for fixed line services are based on actual historical costs and prices for the MTAS are based on forward-looking costs that reflect the most efficient technologies. Nonetheless, the international benchmarks suggest that cost over-recovery of the FTAS might be occurring and this at least warrants investigation by the ACCC.

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<sup>1</sup> ACCC (2019), *Inquiry into final access determinations for fixed line services*, Draft Decision, August, pp 6 and 17.

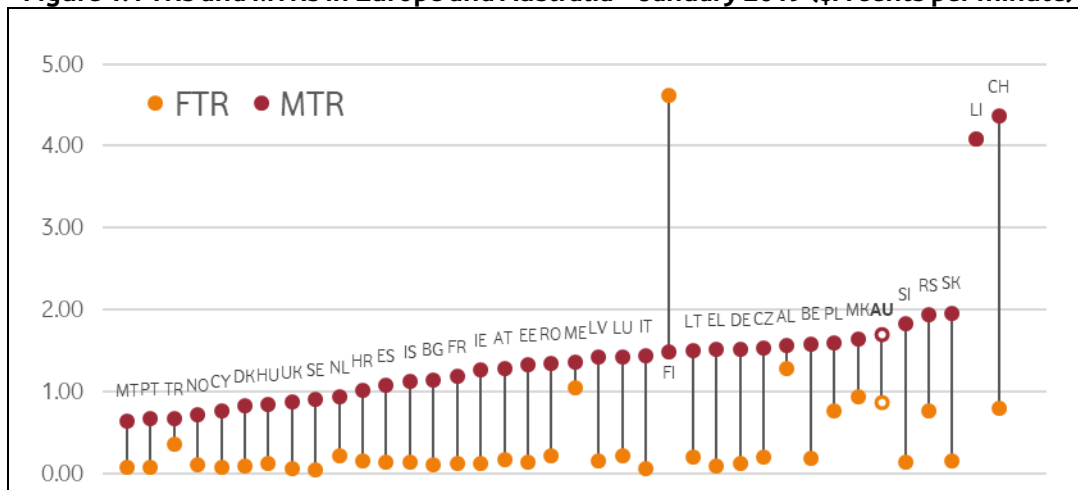
<sup>2</sup> ACCC (2019), *Public inquiry on the access determination for the Domestic Mobile Terminating Access Service*, Discussion Paper, August, p 15.

<sup>3</sup> ACCC (2019), *Public inquiry on the access determination for the Domestic Mobile Terminating Access Service*, Discussion Paper, August, p 19.

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**Figure 1: FTRs and MTRs in Europe and Australia – January 2019 (\$A cents per minute)**



Notes: AUD = 0.6253 EUR (average for January 2019). FTRs are for the incumbent's lowest regulated FTR. The MTR and FTR rates in LI are the same – the FTR point is not visible on the chart.  
Source: BEREC, Vodafone.

VHA supports the ACCC's proposal to undertake a full pricing review of the MTAS and the FTAS together in the future. The scope of that review should include an examination of whether it remains appropriate to use different pricing principles for the different services.

In the interim if, as the Draft Decision indicates, the ACCC "supports a stable pricing environment over the medium term",<sup>4</sup> it must make a corresponding decision to roll-over the MTAS price for the next regulatory period. VHA has made submissions to the ACCC's *Public inquiry on the access determination for the Domestic Mobile Terminating Access Service* indicating our view. We reiterate that it is imperative that the ACCC take a consistent approach across its declared services otherwise it will create or exacerbate distortions in the telecommunications market.

<sup>4</sup> ACCC (2019), *Inquiry into final access determinations for fixed line services*, Draft Decision, August, p 6.