

Optus' comments on the ACCC's proposed indicative prices for Fixed Line services

1. Introduction

- 1.1 This submission provides Optus' comments on the ACCC's proposed indicative prices for Telstra's PSTN originating and terminating access (PSTN OTA), Local Call (LCS) and Wholesale Line Rental (WLR) services.
- 1.2 Optus applauds the ACCC's initiative in releasing the indicative prices since this provide a welcome counter weight to the Telstra's PSTN and LCS undertaking. That undertaking, which effectively proposes to double access prices, has created a significant degree of uncertainty. The indicative prices will go some way to neutralising this uncertainty.
- 1.3 Nevertheless, we recommend that the ACCC revisits a number of its assumptions and;
 - (a) Sets a lower residential WLR price to reflect the application of the Retail Minus Retail Cost (RMRC) discount to the current price for Telstra's wholesale basic access service;
 - (b) Sets a lower PSTN OTA price to reflect the elimination of Telstra's Access Deficit Contribution (ADC) and a lower asset base consistent with any decline in traffic using Telstra's PSTN; and
 - (c) Attaches a health warning to its proposed PSTN OTA price table.

2. Indicative prices for LCS and WLR services

- 2.1 Optus has not been able to access to the non-confidential version of the ACCC's report nor Telstra's underlying RAF data on which the LCS and WLR prices are based. As a result we are somewhat limited in our ability to comment in detail on both the accuracy and reasonableness of the proposed prices.
- 2.2 However, a key concern we can comment on is that the ACCC appears to have taken an incorrect starting price to calculate the residential WLR access fee. Consistent with its past approach the ACCC has used Telstra basic access price under the Homeline Part plan as the starting point for calculating a WLR price based on the application of the Retail Minus Retail Cost (RMRC) discount. This ignores the fact that Telstra has introduced a new wholesale basic access plan with a price of \$27.60.
- 2.3 By applying the RMAC discount to the higher basic access price the ACCC's indicative prices will lead to higher overall costs for local calls and basic access than proposed in Telstra's access undertaking. This is demonstrated by the following table which shows the total monthly charges faced by an access seeker supplying a customer with one basic access service and 65 local calls.

	Prices		
	WLR	Calls	Cost \$
ACCC	23.57	0.1769	35.07
Telstra undertaking	27.6	0.0928	33.63

- 2.4 As can be seen in the above analysis, in trying to split the RMAC discount between calls and basic access the ACCC has inadvertently left \$1.45 in Telstra's pocket. This problem would not arise if the RMAC discount were applied to the current wholesale basic access service price of \$27.60. This would result in a WLR price of \$22.13. The total cost for an average customer would be consistent with that resulting through the application of the undertaking prices. The table below demonstrates this point using the same example of a customer taking one basic access service and 65 local calls.

	Prices		
	WLR	Calls	Cost \$
ACCC adjusted	22.13	0.1769	33.63
Telstra undertaking	27.6	0.0928	33.63

- 2.5 Optus recommends that the indicative price for residential WLR is adjusted to \$22.13 consistent with our above comments.

3. PSTN OTA indicative prices

- 3.1 In its final determination of model prices for PSTN services of October 2003, the ACCC indicated that with the full removal of Telstra's ADC it expected PSTN OTA prices to fall to around 0.7 c/min in 2006-07. It is somewhat troubling, therefore, that the ACCC has proposed to roll-over its 2005-06 rate of 1.0 cent/min for the current period.
- 3.2 The ACCC appears to indicate that changes in Telstra's call volumes has lead it to maintain its 2005-05 indicative price for PSTN OTA. Optus has not been able to access a confidential version of the ACCC's report so it is somewhat difficult to comment fully on the ACCC's approach. It is not clear, for example, whether the ACCC has excluded any residual ADC component in setting its indicative price.
- 3.3 However, it does not seem reasonable to Optus that traffic volumes have changed sufficiently to drive a 43% increase in unit costs over a three year period. Optus accepts that call volumes are likely to have changed from previous expectations. However, the decline is not likely to be as dramatic as the proposed indicative pricing suggests. The following data from the ACCC's Market Indicator report indicates that Telstra's long distance and interconnect call volumes have only declined by 7% in total over the past 4 years.

	2001-02	2004-05	
	million	million	
	mins	mins	% change
Domestic LD	9016	7663	-15.0%
International	786	565	-28.1%
Fixed to Mobile	3815	4392	15.1%
PSTN OTA	25474	23729	-6.9%
Total	39091	36349	-7.0%

- 3.4 Further, to the extent that call volumes have declined and this is not expected to be reversed then the PSTN asset base should be adjusted to reflect the lower traffic demands on the network.
- 3.5 Both of the above facts suggest that the ACCC has been excessively cautious in setting its indicative price. Optus submits that the ACCC should revisit its assumptions and set a lower PSTN price that reflects the full removal of the ADC and adjusts Telstra's network costs to reflect any reduction in traffic usage on the PSTN.

Structure of prices

- 3.6 Optus submits that the ACCC should exercise caution in setting the structure of PSTN OTA charges as this can have a significant impact on incentives. Each component of the charge structure should reflect the costs of the provision of that component. If the charges are not structured in this way, there is likely to be significant inefficient cost recovery of the call and therefore inefficient use of and investment in infrastructure.
- 3.7 The ACCC has provided a price table that disaggregates its headline indicative PSTN OTA rate into different geographic bands. Optus notes that this price table is consistent with the one issued in the ACCC's final model prices determination of October 2003. Further, Optus notes that the structure of that price table was heavily influenced by Telstra's PIE II model.
- 3.8 In past submissions to the ACCC, Optus has raised a number of significant concerns with this proposed pricing structure. In particular we have noted that:
- (a) The price table has an unreasonably high flagfall component that is not justified by reference to the underlying cost drivers. Optus notes that a high flagfall component can have a significant distortionary impact on the actual average unit cost faced by access seekers. This high flagfall component means that charges are very sensitive to differences in the pattern of call hold-times between different carriers. Only access seekers with the exact average call hold-time assumed by the ACCC will face unit costs of 1 cent/min.
 - (b) The PIE II model significantly overstates the costs of rural services which results in an overstatement of rural prices in the proposed pricing table.
- 3.9 Whilst the above concerns remain acutely relevant, it is no longer clear that the proposed price structure actually reflects current assumptions about traffic patterns (such as call volumes, call hold-times etc) on which this structure was based.

- 3.10 Optus accepts that issues about the structure of charges go to a level of detail that is beyond the scope of an indicative prices determination. Certainly we do not expect the ACCC to resolve these issues in finalising its indicative prices determination. These matters are best dealt with in access disputes. However, given the significance of the issues we have raised, it would be appropriate for the ACCC to include a health warning similar to the one it included in its October 2003 determination to the effect that the disaggregated rates are indicative only and that the ACCC would be willing to consider alternate price structures.

4. PSTN OTA and ULLS pricing principles

- 4.1 Optus supports the ACCC's decision to maintain TSLRIC as the basis for determining prices for the ULLS and PSTN OTA services.