



Submission in response to  
ACCC Draft Report

**Public inquiry on the  
access determination for  
the Domestic Mobile  
Terminating Access  
Service**

Public Version

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## Section 1. EXECUTIVE SUMMARY

- 1.1 Optus welcomes the opportunity to provide feedback to the Australian Competition and Consumer Commission (ACCC) draft report on the *Public inquiry on the access determination for the Domestic Mobile Terminating Access Service* (the Draft Report).
- 1.2 Optus remains concerned that the ACCC is proposing a reduction in MTAS rates inconsistent with the evidence presented by stakeholders and inconsistent with the accepted TSLRIC+ cost methodology.
- 1.3 Optus submits that the concerns of stakeholders are largely discounted without sufficient factual evidence. The ACCC relies heavily on the view that it is adopting “efficient MTAS rates” and any resulting impact on markets is “efficient”. This is notwithstanding the fact that stakeholders have provided evidence that MTAS will not promote retail competition and will likely lead to a reduction in competition in the MVNO market.
- 1.4 Optus also submits that this heavy reliance on efficient costs is not supported by the benchmarking report. The MTAS rate proposed reflects an administrative selection of possible rates rather than a scientific analysis of efficient costs. Optus submits that the ACCC cannot claim that its proposed MTAS rate actually reflects efficient costs.
- 1.5 Optus agrees that benchmarking results could provide input into the ACCC’s consideration, but it must not be the sole factor. Optus remains concerned that the ACCC accepts the results of the benchmarking study without sufficient critical analysis of its output and the implications for the LTIE.
- 1.6 A simple comparison with European MTAS rates shows that the proposed rate would place Australia below the European average. This is concerning given that the European rates reflect pure LRIC methodology – a methodology that the ACCC has stated does not promote the LTIE.
- 1.7 Optus submits the ACCC should question the accuracy of the benchmarking of LRIC+ models when its recommended output is below the average pure LRIC rate. This inconsistency indicates that proposed rate does not promote the LTIE.
- 1.8 In a time of global recession, and with the mobile industry suffering material declines in revenue, Optus questions the decision to further reduce industry revenue on the basis on one piece of unreliable evidence.
- 1.9 Optus reiterates that the LTIE is best promoted by rolling over the current MTAS until the ACCC is able to undertake a holistic inquiry into termination across mobile and fixed sectors.

## Section 2. PROPOSED REDUCTION DOES NOT PROMOTE LTIE

- 2.1 The draft report proposes a one-off reduction in the MTAS voice rate from 1.7cpm to 1.22cpm. This represents a 28% decline in mobile termination. Importantly, the draft report has presented no evidence on how the reduction in MTAS rates are expected to flow through to end-users given the presence of unlimited voice plans in the market.
- 2.2 It is rare that all three MNOs are in unanimous support of the position that the current MTAS should be rolled over without adjustment. Vodafone, Telstra and Optus all broadly support a rollover of prices in the current circumstances. There has been no compelling reason as to why there should be a departure from a rollover. It is Optus' view that the key question the ACCC should be considering is what approach will best promote the LTIE in current circumstances. Optus does not consider that the ACCC's proposed approach of international benchmarking will promote the LTIE better than a proposed rollover of prices.<sup>1</sup>
- 2.3 In summary, Optus' views are:
- (a) Retail prices are more heavily influenced by infrastructure-based competition, rather than a reduction in the MTAS price;
  - (b) A narrow focus on segments such as MVNOs and fixed line operators gives an artificial result rather than taking into account the overall impact on the market as a whole, which is what an LTIE assessment should do;
  - (c) MVNO contracts are more likely to be influenced by MNO competition, rather than a reduction in MTAS price;
  - (d) Efficient use of and investment in infrastructure is now subject to some uncertainty and the approach that best take this into account would be a rollover of existing MTAS price.
  - (e) The benchmarking exercise does not represent TSLRIC+ and therefore is not the approach that will best promote the LTIE.
- 2.4 Optus reiterates its position that a rollover of MTAS rates is warranted.

### **ACCC should not solely rely on benchmarking**

- 2.5 The ACCC considers that a reduction in MTAS prices "in line with the decline in efficient cost"<sup>2</sup> is likely to promote competition in the fixed and mobile services markets by creating the environment for more competitive retail offerings. The ACCC's conclusion is based on the assumption that there has been a decline in the efficient costs of providing the service, which is again based on their international benchmarking exercise.
- 2.6 Optus also observes almost all rebuttal of stakeholders' comment rely upon the notion that the changes represent efficient cost and efficient competition.

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<sup>1</sup> ACCC, 2020, Draft FAD, pp.13-4

<sup>2</sup> Ibid.

- 2.7 Optus submits that this statement overplays the results of the benchmarking exercise and places a level of assurance on the results which cannot be justified. Optus acknowledges that benchmarking is an input into the consideration of MTAS rates, but it cannot be used as the sole determinant. Optus is concerned that the ACCC places too reliance on the results of the benchmark results.
- 2.8 In other words, the benchmark study does not provide the ACCC with strong enough evidence to make the unequivocal statement that “the cost of providing the MTAS has significantly declined since the last FAD”.<sup>3</sup> The ACCC does not have evidence before it that demonstrates the efficient cost of MTAS.
- 2.9 First, a simple sense check of the output of the study shows that it is recommending a rate in line with European pure LRIC rates rather than TSLRIC+ rates. This should concern the ACCC.
- 2.10 Second, concerns with the inputs used in the benchmarking study raises further doubts as to the efficiency of the output.

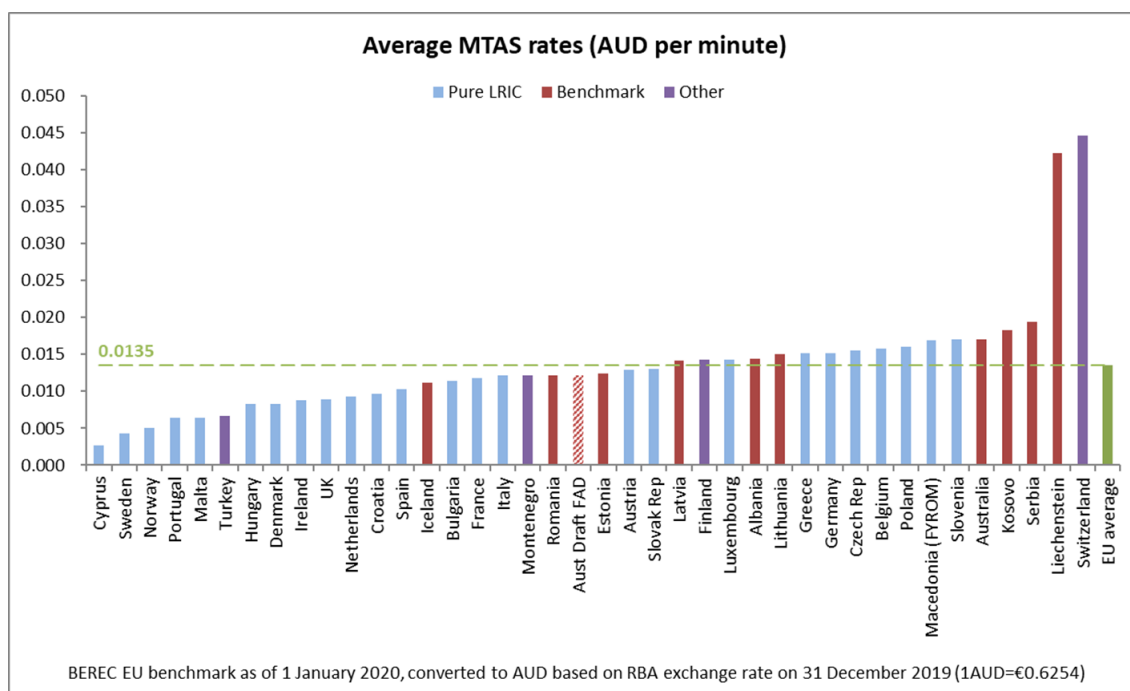
*Sense check of benchmarking shows it does not reflect LRIC+*

- 2.11 The ACCC states that TSLRIC+ remains the appropriate cost benchmark as it best promotes the LTIE. Optus agrees with this view. The ACCC requested Analysys Mason to undertake an international benchmarking review to compare TSLRIC+ models.
- 2.12 A simple test to assess whether the 1.22cpm is a reasonable approximation of the TSLRIC+ cost estimate for MTAS is to compare it against MTAS rates in other jurisdictions.
- 2.13 However, when compared against the nominal MTAS rates in the EU, it is observed that the draft FAD is below the average EU rate as at January 2020 (see Figure 1), and excludes consideration of the pricing methodology adopted in the various jurisdictions.

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<sup>3</sup> ACCC, 2020, Draft FAD, p.2.

Figure 1 EU mobile termination rates – January 2020



Source: BEREC

2.14 On the face of it, this would not appear to be problematic. But it is problematic given that the EU markets below and above the Australian benchmark utilise the pure LRIC cost methodology – a methodology specifically rejected by the ACCC as it excludes fixed and common costs and does not promote the LTIE. The ACCC observed in 2015 that:

... pure LRIC creates a risk of cost under-recovery for MNOs. This undermines the legitimate business interests of the MNOs and is likely to discourage the efficient investment in mobile infrastructure.<sup>4</sup>

2.15 Optus recommends that the ACCC conduct a simple common-sense test on the proposed adjusted rate of 1.22 cpm. Optus submits that the ACCC cannot conclude that a rates of 1.22 cpm is an approximation of the TSLRIC+ cost of providing MTAS.

### Notes on promotion of competition

2.16 Optus provided extensive evidence in its previous submission on how reductions in MTAS will not lead to the promotion of competition. These views were largely discounted by the ACCC – not because the statements were incorrect but rather due to the ACCC’s view that any effect of its proposed reduction on competition is efficient.

2.17 This infers that the ACCC supports reduction in competition, because in its view, it is an ‘efficient’ reduction in competition.<sup>5</sup> Optus does not view that this consistent with the LTIE criteria.

2.18 The ACCC also appears confused as to how MTAS impacts related markets. Optus observes that with regards retail market, the ACCC states that MTAS reductions may not

<sup>4</sup> ACCC, 2015, MTAS FAD, Draft decision, p.16

<sup>5</sup> ACCC, 2020, Draft FAD, pp.13-4

be reflected in changes to retail prices. On the other hand, with regards MVNOs,<sup>6</sup> the ACCC states that MTAS is a direct cost in setting voice rates.<sup>7</sup> The ACCC appears to use both the presence of impacts and the absence of impacts, to justify MTAS promoting competition in related markets. Optus is concerned with this position.

- 2.19 Finally, Optus observes that the ACCC places strong weight on the view that the benchmarking result represents efficient cost. We observe almost all rebuttal of stakeholders' comment rely upon the notion that the changes represent efficient cost and efficient competition. Such strong reliance on efficient costs cannot be justified on the basis of the benchmarking report. While the report provides one source of information as to the level of costs, it is not a definitive statement on efficient TSLRIC+ costs.

### *MTAS does not impact MVNO pricing*

- 2.20 The ACCC states that “[i]n a competitive wholesale market with sufficient infrastructure competition between the MNOs, any reductions in the cost of essential input like the MTAS should result in the cost reduction being passed through to benefit wholesale customers (i.e. MVNOs).”<sup>8</sup>
- 2.21 Optus considers this overstates the importance of MTAS in wholesale contracts and the role it plays in competitive outcomes. The ACCC has focused too narrowly on the MVNO segment and fixed line operator segment, instead of considering the outcome as a whole, as it should under an LTIE assessment. Like market definition, too narrow a focus is certainly likely to see a more significant impact simply because the focus is narrow. In considering what will best promote the LTIE, the ACCC's approach must be to consider the impact on the market as a whole and balance the relevant criteria.
- 2.22 The ACCC state that while MVNOs do not pay or receive MTAS, it understands it is important cost indicator for the MVNOs when assessing wholesale offers from the MNOs.
- 2.23 While Optus acknowledges the ACCC's view on this, we are concerned this view has been formed without sufficient evidence. Optus again repeats that as the leading supplier of MVNO services in the market, we can confirm that MTAS rates has played no direct role in setting pricing with our customers.
- 2.24 **[CiC]**
- 2.25 Optus can confirm that reductions in MTAS will likely flow on to the MVNO market as a reduction in competition and higher prices.

### *No positive impact on retail competition*

- 2.26 Optus acknowledges that in early days of MTAS regulation a reduction in the price of MTAS likely did contribute to promoting competition in downstream retail markets. But this was when there were significant reductions in MTAS prices from 21cpm. The current proposed reduction from 1.7 cpm to 1.22 cpm based on a flawed international benchmarking approach is not likely to be a significant contributing factor to increased competition at the retail level. Nor is it likely to be a significant contributing factor to competition at the wholesale level.

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<sup>6</sup> ACCC, 2020, Draft FAD, p.14

<sup>7</sup> ACCC, 2020, Draft FAD, p.13

<sup>8</sup> Ibid

- 2.27 The ACCC overstates the importance of current MTAS prices and its impact on retail prices. The ACCC's acknowledgement that MTAS prices only represents *one* of the costs in the provision of retail services but that the fact that price reductions may have been achieved in a period of MTAS price stability does not mean that the MTAS price has no effect on the retail offerings in downstream markets<sup>9</sup> is particularly problematic.
- 2.28 It is Optus' view that the fact there has been retail price competition during a time of MTAS price stability is direct evidence that MTAS prices are not the main driver of retail competition, and that the main driver of retail price competition is infrastructure-based competition. Further, as Optus has already submitted to the ACCC, MTAS is not a key determinant of wholesale contracts with MVNOs.
- 2.29 Therefore, any reduction in the MTAS price, needs to be weighed up against the overall impact on infrastructure operators to determine what outcome will best promote the LTIE.
- 2.30 The ACCC has disregarded Optus and VHA's evidence regarding the negative impact of MTAS price reduction on the MNOs in terms of reductions in net termination revenue.<sup>10</sup> Determining which outcome promotes the LTIE requires a balancing of a range of considerations – some of which may be negative, against those that may be positive. It is Optus' view that a significant negative impact in termination revenue will outweigh any incremental benefit from lower MTAS prices and will not promote the LTIE.

### **Encouraging efficient use of and investment in infrastructure,**

- 2.31 The ACCC dismisses stakeholder arguments that a loss of termination revenue due to an MTAS price reduction would lead to MNOs reducing their levels of investment to offset lost revenue. The ACCC noted four reasons why it dismisses this argument:
- (a) The ACCC considers any revenue loss that is due to the reduction in the efficient cost of providing the service is likely to be efficient because it results from aligning prices with efficient costs.
  - (b) MTAS revenue is only likely to represent a small proportion of the MNOs overall revenue and is highly unlikely to have a determinant effect on the overall level of investments made by the MNOs;
  - (c) The ACCC does not consider that an MTAS price based on the efficient cost of the service would discourage efficient investments made to improve the quality of voice service (e.g, to enable VoLTE).<sup>11</sup>
- 2.32 Interestingly, while the ACCC continues to maintain that MTAS reductions could impact retail prices (despite acknowledging that MTAS is only one of the costs in provision of mobile services), the ACCC considers that for MNOs a reduction in termination revenues is highly unlikely to have a determinant effect on the overall level of investment. Optus is concerned by this inconsistent position – if MTAS is large enough to impact competition in related markets then it must also be large enough to impact investment decisions.
- 2.33 The above points are also based on the ACCC's view that its benchmarking exercise shows a reduction in MTAS costs represents the efficient costs to provide the service. However, in the context of an LTIE assessment it is important to remember that efficient costs are not just the lowest costs, efficient costs are those that achieve and encourage

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<sup>9</sup> ACCC, 2020, Draft FAD, p.14

<sup>10</sup> Ibid, p.13-4.

<sup>11</sup> ACCC, 2020, Draft FAD, pp.14-5



- the best allocation of resources in providing services. As outlined above, the outputs of the benchmarking exercise reflect the average European pure LRIC rate and not the Australian TSLRIC+ rate. As such, the rate cannot be described as representing efficient costs.
- 2.34 Optus also observes that the draft report does not reflect material levels of uncertainty now faced by the economy due to the COVID-19 pandemic. We observe the report makes no reference to COVID-19 or its impact on the economy and mobile market.
- 2.35 First and foremost, the challenges posed by the summer bushfires and the COVID-19 pandemic have demonstrated that mobile communications are an essential service. Both public and government expectations have shifted to demand extensive breadth and depth of coverage and continuity of service even during the most challenging of events.
- 2.36 As witnessed during the global COVID-19 pandemic, the role of telecommunication networks in supporting ongoing connectivity has been invaluable. It has also supported the ability for individuals to continue to work, learn and socialise remotely; as well as remain 'connected' during challenging times.
- 2.37 The COVID-19 crisis is also a timely reminder for the need for continual investment in networks to provide the coverage and capacity the Australian public need at home, at work, at school/university, for leisure/entertainment, for retail/commercial and all areas of their lives where they wish to be connected; and that they travel to. To that end, the ACCC should recognise:
- (a) The recent 2019/20 bushfire (a) season has tested the network resilience of mobile operators and has highlighted the community's need and desire for continuous mobile telecommunications before, during and after natural disasters. This new normal will result in increased network costs to improve the resilience of telecommunications infrastructure and to ensure the recovery of services in areas impacted by natural disasters.
  - (b) Mobile Industry revenue and profitability continues to be in decline, with total mobile service revenue falling almost 20% in nominal terms since 2015. Such revenue decline is occurring during a period of prolonged decline in economic activity and an expectation of deployment of new national 5G networks.
- 2.38 It is Optus' view that the benchmarking exercise fail to take into account investments that will need to be made as a result of the recent COVID-19 global pandemic and necessary investments for infrastructure redundancy. For example, all providers with staff and functions based off-shore were impacted when other countries went into lockdown. This meant that staff based off-shore could not perform their jobs – including critical technical functions and responding to customer contacts. It is well known that having some functions based off-shore allows them to be provided more cost effectively, than if the same functions were performed on-shore.
- 2.39 The ACCC arguments are all based on the premise that the reduction proposed is based on international benchmarking exercise. However, Optus considers that because the benchmarking exercise is unsound, then any revenue loss stemming from that is not likely to be efficient.
- 2.40 It is Optus' view that the LTIE would be best promoted and that the efficient use of and investment in infrastructure would be encouraged by a rollover of existing MTAS prices not a reduction in the MTAS price based on an unsound approach. Optus considers that this would also take into account the legitimate business interests of the provider of the services as well.

## Benchmarking

2.41 The ACCC remains of the view that, at this point in time, it is more appropriate to estimate the efficient MTAS cost using an international benchmarking approach instead of developing a cost model.

2.42 As such, Analysys Mason (AM) has been engaged by the ACCC to estimate the cost of providing MTAS in Australia. Notably,

The approach chosen for the inquiry requires an international benchmark of the costs of providing the equivalent service in other jurisdictions where this has been calculated using a bottom-up model of hypothetical mobile operators.<sup>12</sup>

2.43 However, Optus considers that the ACCC’s reliance solely on the results of the AM benchmarking exercise to set the MTAS rate for the next regulatory period may be misguided for the following reasons:

2.44 First, the AM benchmarking approach itself highlights how difficult it is to adjust other cost models to Australian-specific parameters. For example, even AM has considered that not all nine models should be considered with equal weighting. Notably, three adjusted models could be considered with the greatest weight, thereby forming an appropriate subset for averaging purposes on the basis that “given their common inputs, are each calculating comparable total economic costs for the allocated network and also allocating a similar proportion of cost to voice.”<sup>13</sup> The ACCC has therefore used these averaged values to form its consideration of the appropriate upper bound for the MTAS rate.

Figure 2 Estimated cost range for 2020 to 2024 (nominal AUD cent, including spectrum cost)

	2020	2021	2022	2023	2024
Upper bound (Sweden, Peru and Portugal)	1.28	1.24	1.22	1.20	1.20
Lower bound (UK, France, Sweden, Peru and Portugal)	1.02	0.97	0.95	0.92	0.93

Source: ACCC

2.45 The ACCC’s lower bound is based on the five models AM considered could merit consideration. The inclusion of these outputs seems irrelevant given that the ACCC has arrived at its 1.22 cpm on the basis that it adopted the 75<sup>th</sup> percentile within the range of values over the 5 year period for both the upper bound and lower bound results. Optus considers that adopting this same approach limited to just the three adjusted models deemed to be considered with the greatest weight, and the proposed spectrum cost adjustment, would arrive at an MTAS rate of 1.24 cpm.

2.46 The Draft FAD acknowledges that, within the range considered:<sup>14</sup>

<sup>12</sup> Analysys Mason, 2020, Benchmarking the cost of providing the MTAS in Australia, Report for the ACCC, May, p.1

<sup>13</sup> Analysys Mason, 2020, Benchmarking the cost of providing the MTAS in Australia, Report for the ACCC, May, p.34

<sup>14</sup> ACCC, 2020, Draft FAD, p.48

- (a) Picking a relatively high point would better protect the legitimate interests of the access seekers and minimise the risk of any under-recovery;
- (b) Picking a relatively low point would better promote the interests of access seekers and may promote competition in downstream markets to a larger extent; and
- (c) In normal circumstances, picking the midpoint would be appropriate as it balances the interests that are likely to be affected by the MTAS price.

2.47 Optus is concerned by the simplistic analysis. As shown above, it cannot be said that a lower MTAS rate promotes competition better than a higher MTAS rate. Further, we note this analysis shows the selection of the MTAS rate from the benchmark is not scientific or factual based, rather it appears random. This undermines the claim made throughout the draft report that the rate reflects “efficient” costs and therefore by extension its impacts are efficient.

2.48 However, it is still unclear how consideration of a future holistic review of voice interconnection and the development of a cost model incorporating 5G technologies deems the 75<sup>th</sup> percentile to be considered the most appropriate for the purposes of setting the MTAS rate for this regulatory period.

2.49 Second, geographic adjustment will always be subject to individual interpretation. In principle, while it makes sense that a geographic adjustment is required to enable a comparison with Australia-specific geographies, it is unclear that the approach taken does not further entrench regulatory error into the modelling process. For example, in the three models identified to be given greatest weight, there are clear differences in both the original number of geotypes considered and the assumptions made to apply the Australian adjustments; thereby highlighting the difference in the treatment of geotypes and population density in each model.

Figure 3 Resulting Australia-specific adjusted area and population applied in models

	Sweden		Peru		Portugal	
	Australia	Area	Population	Area	Pop	Area
<b>Dense Urban</b>	na	na	6,874	14,088,567	5	86,066
<b>Urban</b>	14,843	17,943,299 (74.19%)	843	698,159	5,797	12,944,051
<b>Suburban</b>	38,743	4,003,776 (16.55%)	3,737	2,083,510	22,492	7,079,104
<b>Rural</b>	7,614,285	2,239,224 (9.26%)	7,676,417	7,316,063	7,659,577	4,077,078

	Sweden		Peru		Portugal	
	Original	Area	Population	Area	Pop	Area
<b>Dense Urban</b>	na	na	5,720	12,953,544	11	173,944
<b>Urban</b>	2,982	31.20%	119,576	8,834,944	1,445	4,060,643
<b>Suburban</b>	117,836	57.49%	605,558	5,471,899	15,453	4,207,139
<b>Rural</b>	289,459	11.31%	555,603	474,468	75,230	1,839,635

Note: Derived from adjustments as advised by Analysys Mason

- 2.50 Since all cost models are developed for specific markets, there is a risk that by augmenting a cost model built for a separate market may embed and further skew any existing cost compromises (in the original model assumption for assets required and unit costs) accepted by the incumbent national regulatory agency.
- 2.51 Third, exchange rates adjustments will also be highly variable. While AM uses a PPP-adjusted exchange rate, to normalise the model outputs for comparison, regulatory risk may arise where there becomes a significant deviation (or change) in the exchange rate applied at the time the final decision is made. For example, the PPP inputs adopted by AM is based on the three-year average over the period 2016 to 2018. This should be updated to include at least the 2019 values in the World Bank tables referenced.
- 2.52 Replicating the same approach in the AM Input sheet provided to include the 2019 values, the averaged three-year period 2017 to 2019 and four-year period 2016 to 2019 both present a forex multiplier that is greater than that applied in the AM's study updated as at 27 February 2020. This will similarly have flow through implication for the PPP adjustment. This difference is illustrated in the table below.

Figure 4 Updated PPP inputs (forex multiplier LCU to AUD)

	Applied in AM study based on 3-year average (2016 to 2018)	Updated based on 3-year average (2017 to 2019)	Updated based on 4 year average (2016 to 2019)
<b>East Caribbean</b>	0.4924	0.5039 (+2.3%)	0.5025 (+2.1%)
<b>France</b>	1.5145	1.5550 (+2.7%)	1.5385 (+1.6%)
<b>Mexico</b>	0.0702	0.0711 (+1.2%)	0.0713 (+1.6%)
<b>Netherlands</b>	1.5145	1.5550 (+2.7%)	1.5385 (+1.6%)
<b>Peru</b>	1.3295	1.3606 (+2.3%)	1.3567 (+2.1%)
<b>Portugal</b>	1.5145	1.5550 (+2.7%)	1.5385 (+1.6%)
<b>Spain</b>	1.5145	1.5550 (+2.7%)	1.5385 (+1.6%)
<b>Sweden</b>	0.1546	0.1529 (-1.1%)	0.1539 (-0.4%)
<b>UK</b>	1.7604	1.7670 (+0.4%)	1.7793 (+1.1%)

Note: Derived using AM PPP input sheet, updated for 2019 values from <https://data.worldbank.org>  
Percentages in brackets represent the difference from forex multiplier applied by AM.

- 2.53 This highlights that reliance on international benchmarking should also acknowledge changes in currency conversion and PPP implications over time. Variances – high or low, even when averaged – can be observed depending on the time series considered.
- 2.54 Fourth, spectrum holdings, and as a result spectrum costs, should ensure that the efficient cost of the spectrum licence fees can be recovered. The proposed simplification of spectrum holdings to reflect nationwide licences does not reflect the acute differences between metro and regional holdings. This risks over-simplifying the nuances of the Australian spectrum licensing framework and the cost driver that lack of spectrum in an area may play in regards to new and ongoing investment decisions.
- 2.55 While AM has noted that a smaller spectrum holding should be a conservative assumption that may drive the deployment of additional site deployments in the various cost models, the application of a small spectrum holding does not recognise the actual spectrum costs incurred by operators, and the fact that spectrum auction costs in Australia have been among the highest on a MHz/Pop basis across various bands.
- 2.56 In addition, the Australian spectrum licensing framework also includes other ongoing spectrum licensing fees, such as other apparatus licence fees including for some regional mobile spectrum bands, and annual spectrum licence tax. While smaller in comparison, compared to the 900 MHz band, these are currently not considered
- 2.57 We also consider that the spectrum cost for 900 MHz should take into account the annual licence payments paid by each mobile operator. This spectrum is currently allocated on an annual basis, with the entire band (25 MHz paired) equally split across the three operators. While the use of 5 MHz paired can be considered relevant in a spectrum holding sense for purposes of the modelling exercise, the attributable cost should seek to recover the actual cost of the licence. This because operators are not able to only pay for the 5 MHz paired holding due to the legacy construct of the licensing arrangements in the band, and therefore by only applying the annually-indexed per MHz paired unit cost, this risks under-recovering the cost of the 900 MHz spectrum over time. For example, based on the 2019 renewal fees, the actual amount paid per MNO is

estimated to be \$28.21m<sup>15</sup> of which the AM approach will only recover \$16.79m (for use of a 5 MHz pair) leaving \$11.42m to be unrecovered. To take this into account, Optus considers that the Input spectrum cost sheet be adjusted through the renewal fee such that the total cost of the 900 MHz band can be recovered. As a result, this change increases the overall spectrum contribution from \$0.130 to \$0.150 cpm – that is, at least an incremental 0.2 cpm to be added to the proposed MTAS price.

- 2.58 Optus is also concerned with regards the proposed WACC. The ACCC has provided Analysis Mason with a pre-tax cost of capital of 4.98% in nominal terms, and 2.53% in real terms. Optus observes that this process was not benchmarked.
- 2.59 The EU reported the mobile WACC used across Europe in 2019. In this report, the average nominal pre-tax cost of capital was 8.22%, with a maximum reported rate of 14.29% and a minimum of 5.55%.

Figure 5 EU Mobile WACC 2019

	Average	Maximum	Minimum
<b>Nominal pre-tax</b>	8.22%	14.29%	5.55%
<b>23 EU NRAs</b>			

Source: BEREC Regulatory Accounting in practice 2019

- 2.60 Investment occurs in a global market. Australian MNOs have to compete for capital against mobile operators globally. The ACCC should ask why international companies would invest in Australian mobile assets if the return is around half that expected in Europe. Optus is concerned that the ACCC is proposing a WACC that is less than the minimum across the 23 EU markets.
- 2.61 In addition, the EU report also demonstrates that in almost all markets, the mobile WACC is above the fixed WACC.
- 2.62 In the 2015 MTAS FAD decision the “the ACCC considered that the WACC determined in the Fixed-line Services Review (FSR) would be appropriate to reflect the cost of capital of an efficient mobile operator in Australia.”<sup>16</sup> On this basis, it concluded a nominal WACC of 5.89% to be appropriate.
- 2.63 Optus submits that at the minimum, the ACCC should adopt a WACC value greater than that used for fixed services.

<sup>15</sup> Based on the published renewal fee multiplied by 8.4

<sup>16</sup> ACCC, 2015, MTAS FAD, p.15