

25 September 2009

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Australian Competition & Consumer Commission
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Dear Mr Ratchford

SUBMISSION ON DRAFT PRICING PRINCIPLES

SP Telemedia Limited (SPT) is an ASX listed company which owns TPG Internet Pty Ltd, Soul Communications Pty Limited and Soul Pattinson Telecommunications Pty Ltd, each of which is a significant access seeker for one or more of ULLS, LSS, WLR, LCS and PSTN OTA, and significantly TPG is one of the largest acquirers of LSS.

SPT recognises the difficult task that the ACCC faces in endeavouring to meet the objectives of arriving at access pricing which:

- (a) is based on the cost of providing the service;
- (b) does not discriminate in a way which reduces efficient competition;
- (c) is not inflated to reduce competition in dependent markets; and
- (d) is not predatory.

SPT does not believe, particularly in connection with ULLS, that the proposed pricing principles meet those objectives.

The proposed pricing for ULLS Zone A, LSS and WLR are set out in the below table:

	2009-2010	2010-2011	2011-2012
ULLS ZONE A	\$16.90	\$20.00	\$23.60
LSS	\$ 1.00	\$ 1.00	\$ 1.00
WLR	\$23.30	\$23.60	\$23.80

In developing fixed line products and services for supply to consumers, we consider a range of factors. These include:

- ability to obtain market share through the delivery of innovative products attractive to consumers;
- operational impact if such products were to be offered (i.e., the operational efficiency with which the products could be delivered); and
- The returns that can be obtained from the products.

The differential pricing between ULLS and the combination of LSS and WLR is clearly a very influential factor in the making of development decisions.

It is operationally much simpler to utilise LSS in supplying broadband to consumers and provisioning is also quicker and easier than provisioning broadband using ULLS. Customers are able easily to acquire a voice service from either Telstra or any other supplier who acquires WLR. Accordingly, our strategy to date has been to make use of LSS in delivering broadband to consumers and we have been recognised on many occasions as being one of the best value providers of such services in Australia.

The limitation with the strategy is that it has left LSS broadband customers who need a voice service with no choice but to buy that service from Telstra or another access seeker who acquires WLR. Such consumers have been for many months calling on TPG to offer a broadband and voice service which avoids the need for such consumers to acquire line rental.

Given this pent up demand, we have been aware of the potential to bring our efficient business operations to bear in the line rental and voice market and that, in so doing, our end users would significantly benefit from those efficiencies by way of lower priced services.

The draft pricing principles have caused TPG seriously to reconsider whether the decision to offer voice products using ULLS remains cost-effective and rational or will remain rational as the ULLS price increases.

The impact of the proposed pricing principles is that by 2011 an access seeker who is supplying broadband and voice with LSS and WLR in Band A will be paying Telstra \$24.80. The same access seeker who supplies services to consumers using ULL will be paying Telstra \$23.60 per month. The \$1.20 per month saving that the ULL based supplier will obtain compared to an LSS/WLR supplier must motivate that supplier to take on:

- (a) the cost of the infrastructure that the supplier must bear to supply a service using ULLS; and
- (b) the extra operational overhead that the supplier must bear to connect and supply the service using ULLS.

In practical terms, the incentive for TPG to do these things is significantly diminished.

We submit that ULLS pricing should be set at a rate which motivates the installation of alternative infrastructure and the development of innovative products and services using ULLS rather than the WLR/LSS combination. The current proposed pricing principles do not achieve this and, as such, will tend to have a negative competition outcome.

Thank you for considering our submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alan Latimer', with a long horizontal flourish extending to the right.

ALAN LATIMER
Director