



23 September 2010

Mr Michael Cosgrave  
Group General Manager  
Communications Group  
ACCC  
*By email*

Dear Michael

### **Draft Pricing Principles for Fixed Line Services – PSTN Rate Structure**

Optus welcomes the ACCC's recent release of its draft Pricing Principles for fixed line services, which proposes to implement some appropriate changes to the way access prices are determined on Telstra's fixed line network. We look forward to the opportunity to comment in detail on the ACCC's proposed new approach and in particular on a number of the implementation issues you have raised for industry comment. However, this letter draws your early attention to one significant issue with the draft determination, namely the proposed rate table for PSTN originating and terminating access (PSTN OTA) charges.

The ACCC has indicated that Telstra should recover on average a PSTN OTA rate of 1.1 cents/minute to cover its costs plus a regulated return. To give effect to this the ACCC has proposed that actual traffic should be charged on the basis of a rate table, which should deliver Telstra an average revenue rate of 1.1 cent/minute. The rate table proposed by the ACCC provides for a flagfall and conveyance cost for each of four different geographic bands. The weighted average headline rate a carrier pays will reflect its specific traffic split across the geographic bands and its average call hold-time (this converts the flagfall to a cent/minute rate). Optus notes that the basic format of the price table was adopted by the ACCC in its final model prices determination of October 2003 and was based on the construct put forward by Telstra from its PIE II model.

Optus' concern is quite simple. Traffic patterns have changed since this rate table was developed. As a consequence application of the proposed rate table will not deliver the outcome anticipated. That is, application of this rate table on an industry wide basis is likely to result in Telstra recouping more than the headline average rate of 1.1 cent/minute for Telstra.

Two factors have caused a significant change to traffic patterns in the seven years since this rate construct was developed;

- Firstly, there has been a significant growth in the take-up of mobile services, which will have driven a significant increase in the volume of mobile to fixed traffic terminating on the Telstra network. This is relevant because calls from mobile handsets tend to be of a shorter duration than calls from a fixed handset. Optus submits, therefore, that average call hold times are now likely to be closer to, or indeed below, 3 minutes per call and not the 4 minutes assumed by the ACCC; and

- Secondly, there has been a significant take-up in ULLS since 2006, which has meant that over 800,000 lines in metropolitan Australia have effectively been lost to Telstra. As a result, originating and terminating traffic that would previously have been carried by Telstra is now carried by other service providers. This is relevant because it means that the mix of Telstra's traffic will have changed, with proportionally less traffic in CBD/Metro locations, and a greater proportion of traffic in provincial/rural locations, compared to the pattern assumed in the table.

With these changes in traffic patterns, application of the ACCC's proposed rate table will result in higher average revenue per minute (across all calls) for Telstra than is anticipated. That is Telstra will over recover its costs. This is demonstrated in the following table, which shows the application of the current rate table based on a lower call hold time (scenario 1); a different geographic traffic mix (scenario 2); and combination of each of these changes (scenario3).

|              | Traffic % |              |            |       | Call Hold Time (mins) | Headline Rate |
|--------------|-----------|--------------|------------|-------|-----------------------|---------------|
|              | CBD       | Metropolitan | Provincial | Rural |                       |               |
| ACCC profile | 5%        | 75%          | 13%        | 8%    | 4.00                  | 1.10          |
| Scenario 1   | 5%        | 75%          | 13%        | 8%    | 3.00                  | 1.19          |
| Scenario 2   | 4%        | 66%          | 18%        | 12%   | 4.00                  | 1.27          |
| Scenario 3   | 4%        | 66%          | 18%        | 12%   | 3.00                  | 1.36          |

## Recommendation

Optus strongly encourages the ACCC to amend its current proposed rate table to take account of the changes in traffic patterns noted in this letter. Such an approach would help to mitigate the risk of cost over recovery by Telstra.

However, given the dynamic nature of our industry, there is a clear risk that any rate table adopted by the ACCC quickly becomes outdated. An alternate approach for the ACCC would be to dispense with the arcane rate table and move to a single national average rate PSTN OTA rate, consistent with the approach adopted for MTAS pricing. This approach would have the advantage of ensuring that Telstra recoups its target cost of 1.1 cent for every minute of originating/terminating PSTN traffic.

Optus looks forward to commenting in more detail on this issue in its formal submission.

Yours sincerely



Andrew Sheridan  
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Interconnect and Economic Regulation