



7 February 2020

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Dear Sir/Madam

**Re: Public inquiry on the access determination for the Domestic Mobile Terminating Access Service – Position and consultation paper**

Telstra welcomes the opportunity to submit comments in response to the Australian Competition and Consumer Commission's (ACCC's) Domestic Mobile Terminating Access Service (MTAS) – Final Access Determination Position and Consultation Paper.

We support the ACCC's approach to setting prices for MTAS. The TSLRIC+ based pricing approach best approximates the costs to provide the service. This will best promote the long-term interests of end users (LTIE) as it provides an access provider with an expectation of a return on efficiently invested capital and the recovery of efficiently incurred common costs. A benchmarking approach, as proposed by the ACCC, is a less resource intensive approximation of the TSLRIC+ costs compared to a bottom-up cost model. However, as we note below, there are limitations associated with the complex benchmarking approach which suggests that current prices should be rolled-over unless there is a compelling case for change.

We agree with the ACCC's position that the current non-price terms and conditions (NPTCs) continue to be appropriate and provide an adequate fall-back. There have been no substantive disputes relating to NPTCs since the previous FAD was issued. As such, we consider there is no reason to make changes to the MTAS NPTCs.

We broadly support the draft benchmarking methodology although have concerns with some of the proposed elements, which are discussed below. We will be able to give more detailed comments on the methodology at the next stage of the engagement process once the results of Analysys Mason's report are available.

**Comments on proposed benchmarking approach**



While Telstra supports the TSLRIC+ benchmarking approach, it is important that the limitations of the approach are appreciated. Models by their very nature are simplified versions of the real world and contain some level of error. Adjusting complex models with complex adjustments can compound degrees of uncertainties inherent in the models and broaden the range of results such models can reasonably predict. Thus the benchmarking results are best used to provide a 'sense check' on existing prices and current prices should remain the same unless there is a compelling, clear and unambiguous case for change.

### ***Countries***

We believe the majority of countries selected for benchmarking are appropriate. However, we are concerned with the inclusion of the East Caribbean due to the vastly different geographic nature of these islands compared to Australia and because it is an aggregate of multiple countries. It may be that the adjustments will compensate for these differences. However, should it, or any of the countries included, be an outlier from the majority of the results of the benchmarking process, we believe they should be excluded from the benchmark set of countries.

### ***Currency conversion***

Telstra notes that the intent is to use a combination of market exchange rates and purchasing power parity (PPP) rates when converting models to Australian dollars. If the group of countries selected are broadly comparable to Australia, then we would not expect material differences in the outcome of the benchmarking due to the use of PPP or exchange rates. If any countries have materially different PPP and exchange rates, then we recommend that Analysys Mason analyse the cause of the difference, and then an appropriate decision can be made as to whether to include that country in the benchmarking or not. However, if the choice between PPPs and exchange rates does materially affect the benchmark outcomes, then that could be a reason to not change current MTAS pricing.

### ***WACC***

We support adjusting for an appropriate weighted average cost of capital (WACC). We believe it is important that the WACC reflects an appropriate level of risk in a competitive market. Historically, the ACCC has used the same WACC as that used in the fixed line services model. However, fixed line services are not subject to the same systematic risks as faced by mobile services, and so the fixed line services WACC is not appropriate for MTAS. Telstra proposes the WACC should be reflective of the additional risk faced by competitive mobile networks to adequately reflect funding costs.

### ***Spectrum Costs***

The proposed use of the 2012 Government Directive on renewal fees is significantly below the value of recent auctions. Telstra considers it is more appropriate to use actual auction results. Specifically, we believe the auction results from the regional 1800MHz auction, which concluded in February 2016, and the Multiband 'residual lots' auction, which concluded in December 2017, should inform the spectrum allocation costs used in the modelling.

### ***Other variables***

In principle we support the proposed adjustments for the remaining parameters. However, we reiterate that we will be able to give more detailed comments on the methodology at the next stage of the engagement process once the results of Analysys Mason's report are available.



If further clarification is required, please contact Ben Hutchinson on [REDACTED], or [REDACTED].

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Iain Little'.

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