



27 September 2019

Tara Morice

Director

Infrastructure Regulation Division

Domestic Mobile Terminating Access Service Declaration Inquiry

Australian Competition and Consumer Commission

MTASinquiry@acc.gov.au

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

Dear Ms Morice,

ACCAN thanks the ACCC for the opportunity to contribute to its Domestic Mobile Terminating Access Service (MTAS) Declaration Inquiry Final Access Determination (FAD) consultation.

ACCAN appreciates that some of the concerns outlined below may not fall entirely within the scope of the MTAS consultation, but notes that there are substantial grounds for further scrutiny of retail pricing arrangements for fixed line services.

ACCAN considers that there are sufficient grounds for undertaking further cost modelling to establishing the true cost of MTAS provision. ACCAN does not consider that there are compelling reasons to support the rollover of existing pricing arrangements, noting that current wholesale prices likely materially overstate the fundamental cost of providing MTAS. Acknowledging that there has been an internationally observable trend showing a diminution of MTAS costs as identified in the discussion paper there is a reasonable basis for concluding that a similar decline has occurred in the Australian market.

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Australia's peak body representing communications consumers

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ACCAN appreciates that cost modelling is an expensive process to undertake but considers that in light of the likely material reduction in the cost of providing the service that consumers are likely to benefit significantly from a close examination of the true cost of service provision. In addition, ACCAN considers that reductions in the wholesale costs will encourage providers to seek further efficiencies in their infrastructure investment programs and encourage the long term interests of end users of that infrastructure. However, in the event that the ACCC does not undertake cost-modelling, ACCAN's preference would be for international cost benchmarking to be undertaken.

ACCAN does not consider that applying an adjustment to the current MTAS price is an appropriate option. The application of a simple reduction in MTAS pricing is unlikely to capture the full reduction in MTAS costs and in particular the efficiency gains associated with technical improvements in the network. As a consequence ACCAN considers that a simple adjustment would be unlikely to be consistent with principles of cost-reflective pricing and would result in consumers facing inefficiently high charges. In addition to being inefficient ACCAN considers that it would be highly detrimental to vulnerable consumers who would face higher than necessary retail prices.

ACCAN is opposed to a rollover of existing MTAS pricing as we consider that such an arrangement would support inefficiently high MTAS pricing that is unlikely to reflect the underlying cost of delivery. There is sufficient evidence to indicate that the underlying cost of providing MTAS services has fallen considerably since the last review. Accordingly, revision to the FAD is required in order to ensure that prices are set to reflect the efficient cost of providing the service, and facilitate competition and allocative efficiency in the downstream voice service market.

The rollover of existing pricing arrangements would result in the setting of MTAS prices at an artificially higher rate than their cost of provision. Although for some retail service offerings this would not result in a distortion, for those plans remaining in the market that continue to charge on the basis of usage it would discourage the efficient use of services.

For those consumers that are using services that retain usage based charges, the cost of accessing services is priced well in excess of the underlying efficient cost of providing the service. This is both detrimental to these consumers in that they pay more than they otherwise

would, but also entails a deadweight social welfare loss as consumers are deterred from using services that if efficiently provided at cost-reflective prices would be affordable for consumers.

Among consumers on very low incomes, the use of mobile and fixed services that retain usage based charging remains common. For these consumers a reduction in the wholesale cost of services is likely to facilitate cheaper access to essential communication services. ACCAN regularly receives contacts from consumers, in particular elderly consumers, who disproportionately use voice-only fixed line services that entail total monthly phone bills in excess of the cost of high-speed broadband plans, primarily due to calls to mobile numbers.

The other main consumer cohort who continue to retain fixed voice services are those residing in rural, regional and remote areas who keep these services in order to augment other less reliable forms of communications access. These consumers often face considerably higher costs as a consequence of the continued use of these services; though they often lack access to reliable and more cost-effective alternatives. ACCAN notes that although historically usage charging was a mechanism for cross-subsidising the otherwise high cost of providing cheaper access to services for these consumers, this subsidy is now directly provided via the Universal Service Obligation (USO) and NBN Co. internal subsidies.

ACCAN considers that the retail pricing frameworks currently in place in the fixed line services market are becoming increasingly disconnected from the fundamental cost of service provision. In particular, ACCAN notes that the underlying cost associated with wholesale access for voice-only services delivered over the NBN is set at \$22.50. Despite this flat charging structure, many voice services delivered over the NBN continue to charge for VOIP calls where there is no off-net component to the service. However, the majority of service providers continue to apply a pricing methodology that charges consumers for usage despite the underlying cost of service delivery approaching zero. Where providers have departed from usage based pricing, the flat rates offered are priced well in excess of the cost of service provision, with the margin attained on the provision of standard telephone services appearing to exceed that of more complex services offerings.

The economic rationale for usage based pricing was to cross-subsidise low cost infrastructure access in order to facilitate take-up of infrastructure services. This policy intent was

originally targeted to facilitate service take-up by low income cohorts as well as those cohorts residing in areas where the underlying cost of infrastructure provision would have precluded take-up of services if the true cost was reflected in pricing. Although this pricing approach was justifiable when the entirety of the network was government owned, and internal cross-subsidies were required to fund this access, these services are now funded via alternate mechanisms.

The application of Ramsay-Boiteux pricing concepts for the cross-subsidisation of fixed infrastructure costs are increasingly unjustifiable, noting that the underlying cross-subsidisation of the non-profitable regional, rural and remote parts of the telecommunications networks are either already incorporated in the wholesale charge set by NBN Co., or alternatively funded through existing USO arrangements.

Put simply, the subsidisation of infrastructure access through higher usage charges is untenable in an environment where these subsidies are already paid for by taxpayers through the USO or through user-based charges via the NBN. At present, the use of high retail use charges appears to be intended to double-dip on cross-subsidies that were originally intended to facilitate low cost infrastructure access. This pricing approach is not only detrimental to legacy service users, but increasingly to those consumers who have migrated to the NBN, who face the same retail tariff construct despite the underlying cost of service provision being almost entirely fixed.

ACCAN considers that once the transition to the NBN is complete, any outstanding cross-subsidies associated with the provision of fixed line voice services would either be embedded into the existing NBN wholesale price or addressed through the funding made available under the terms of the USO. Accordingly, following the completion of the NBN migration a continuation in the use of usage based retailing pricing arrangements would indicate abuse of market power.

ACCAN considers that the FAD should expire at the end of the MTAS declaration. Accordingly the end date for the FAD should be 30 June 2024.

ACCAN thanks the ACCC for the opportunity to contribute to this important consultation. Should the ACCC require any further information or clarification concerning any of the issues raised in this submission please do not hesitate to get in contact.

Yours Sincerely,

Gareth Downing

Senior Policy Analyst