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ACCC warns Telstra: fixed line wholesale prices likely to fall

The ACCC has written to Telstra warning it that indicative prices for wholesale fixed line services likely to emerge from its cost-modelling exercise will almost certainly be lower than the prices Telstra has presently negotiated with its wholesale customers.

Prices for the wholesale line rental (WLR) and local carriage service (LCS) are presently set on a retail price minus retail cost (RMRC) model but the ACCC has had a long-established goal of moving to cost-based pricing using a total service long run incremental cost (TSLRIC) model and to this end commissioned Analysys to develop a cost model to aid its determination of TSLRIC pricing principles and indicative prices for such services.

The model has been the source of a great deal of contention between Telstra and the ACCC with Telstra repeatedly writing to the ACCC claiming to have found numerous errors in the model which underestimate costs very significantly.

On 13 March Tony Warren, Telstra's executive director regulatory affairs, wrote to the ACCC claiming that Telstra had identified errors in the Analysys model which underestimated Telstra's costs by \$3.0 billion (ExD 17 Mar). Warren called for a rapid response from the ACCC saying it had seen "substantial evidence that some firms are placing considerable weight on the published results from an early version of the ACCC's model."

A number of Telstra's commercial wholesale agreements for WLR and LCS are understood to expire on 30 June and negotiations on prices going forward to be already underway. Any signs from the ACCC, and its discussion with Telstra, that are likely to indicate prices changes either up or down will influence access seekers' negotiations. Hence Warren's comment about firms placing "considerable weight" on the outcomes of the ACCC's modelling exercise.

While Telstra might like to create an impression, eg by claiming to have found a \$3.0b 'hole' in the model,

that prices will rise post 30 June 2009, the Commission is firmly suggesting the opposite.

Michael Cosgrave, the ACCC's group general manager communications, has responded to Warren's letter with a letter in which he notes that the current pricing for WLR and LCS, which form the basis of negotiated prices for commercial wholesale services and which specify a retail minus retail cost approach are in place only until 30 June 2009 when the current declarations of these services expire.

Without making any firm commitments, Cosgrave suggests in the letter that pricing principles for redeclared services will be TSLRIC based and that the Analysys model will be a significant input to these pricing principles and indicative prices. Most importantly, he notes that "the initial outputs from the model suggest that in the event of redeclaration and the adoption of a cost-based pricing principle, prices for WLR and LCS are likely to be less than under an RMRC approach."

Vodafone Hutchison merger: bad news for consumers

Market research company, Telsyte, is forecasting that the merger of Vodafone and Hutchison in Australia will see a lessening in the aggressive price competition of recent years.

Telsyte estimates that the merged entity will have "leapfrogged Optus in the all-important 3G and mobile broadband segments by a wide margin." According to research director and principal analyst, Warren Chaisatien, "This transformed landscape will lead to greater coverage networks and better offerings, but it is hard to see how this will translate into more competitive prices for Australian mobile users."

Even though the merged entity will be a very strong competitor to Optus, Telsyte does not see the battle for market share being fought through aggressive pricing. Chaisatien told *ExchangeDaily* "When you look at Vodafone and Hutchison they have been the closest competitors on price. Now there will be no compelling reason for them to cut prices and that is precisely the

concern that the ACCC has." The ACCC announced last week that it was looking into the competition impacts of the proposed merger, ExD 02 Apr).

"I think Optus may be prompted to become a bit more competitive but they have not proven to be price leaders," Chaisatien said. "Overall when you look at Optus' strategy over the past 36 months, they have been very good at price matching but not at prices leading. When Telstra bundled fixed line and home phone Optus went 'me too' and when Vodafone and Hutchison launched capped plans, Optus followed."

According to Telsyte, the merged entity, to be known as VHA, will be number two in the 3G market with 29 percent (Telstra 48 percent, Optus 22 percent and MVNOs one percent) and number two in the mobile broadband market with 36 percent, share well ahead of Optus (19 percent). Telstra will have 48 percent. Overall Telsyte puts VHA in third place with 25 percent (Telstra 41 percent Optus 31 percent) and lagging well behind Optus and Telstra in the business market (Telstra 54 percent, Optus 29 percent, VHA 15 percent and MVNOs two percent). However Vodafone's global strategy is to go after the business market and to expand its reach well beyond supplying mobile services. Locally its implementation of this is Vodafone Business One (ExD 06 Mar), still in the early stages of implementation.

Competition tipped for Voda's Business One

Telsyte believes it has the potential to make a big impact in the market. Chaisatien said: "This year's launch of Business One is expected to spark great interest in converged mobile and fixed unified communications solutions...One of the biggest trends we're detecting this year is large interest in and adoption of mobile PBX / mobile UC (porting desktop phone PBX functionality onto smartphones, which incorporates FMC handsets) by Australian businesses...Telsyte expects more offerings of this mature to be introduced in 2009, most likely by Optus in partnership with a telephony equipment supplier such as Alcatel-Lucent or Nortel."

Meanwhile Telsyte finds the mobile market displaying little signs of suffering from the financial crisis. "Mobile broadband, whose average pricing has dropped by half in the past 12 months, was the biggest winner, having more than doubled to become a \$1 billion market," Telsyte reports. It says that "despite rapidly deteriorating consumer and business confidence in the past year, Australian mobile service revenue grew by...12 percent and average monthly spend per user by almost five percent...Continued HSPA+ network upgrades, the explosive growth of mobile broadband and the consumerisation of smartphones were the main drivers behind the nation's mobile market's impressive performance."

Mobile carriers thriving, handset vendors not

However, "While mobile carriers will continue to thrive, handset vendors will be feeling the pinch this year as users prolong their handset replacement cycles, with handset shipments forecast to decline by 10 percent this year.

Mobile penetration is currently at 110 percent and Telsyte forecasts this to reach 125 percent in the next five years, mainly driven by machine-to-machine use and the more than million mobile broadband users expected by 2013. It also forecasts that prepaid, currently at about 50 percent, will make a comeback as MVNOs "progressively commoditise 3G offerings."

These findings are from Telsyte's latest study, titled "Australian Mobile Services Market, 2008 Year In Review & 2009-2013 Forecast".

Telecom NZ & Vodafone NZ offer Bebo mobile messaging

Hot on the heels of Telecom NZ claiming and 'exclusive' deal with mobile messaging service provider, Bebo, Vodafone New Zealand has also launched Bebo services.

Vodafone New Zealand is now offering Bebo Open Mobile Messaging enabling it to offer SMS messaging to customers through the 2802 short code. Users will receive Bebo SMS alerts directly to their mobile phone, and will be able to update their Bebo profiles, add photos to their gallery, give virtual gifts and interact with friends.

'Beboers' can choose to get SMS updates sent free to their Vodafone mobiles and for 20c per message can update their pages via SMS. Bebo says it expects to announce additional Bebo Open Mobile partners and initiatives throughout 2009.

Just a week ago Telecom New Zealand announced what it claimed to be an "exclusive" mobile partnership with Bebo, saying "Telecom has been designated as the only Bebo Open Mobile Core Partner in New Zealand with exclusive access to certain Bebo mobile content and services."

However this exclusivity in part at least seems to simply mean that Telecom customers use a different short code to upload photos than the code used by Vodafone subscribers!

Telecom said that: "Users will receive Bebo SMS alerts and updates on their mobile phones through a short code and gain the exclusive ability to upload photos to their Bebo profile via this short code. Additionally, Telecom customers can update their Bebo profiles, add photos to their gallery, give virtual gifts and interact with friends through the short code."