

Wholesale Line Rental – declaration too much too late?

The ACCC is contemplating both declaration of the wholesale line rental service and serving a Competition Notice on Telstra and facing Telstra in court on LSS pricing; this is a big year for access pricing.

The ACCC's draft determination on the future of the local call service (LCS) is likely to seek declaration of wholesale line rental (WLR). In the UK, WLR is already declared and revised prices were announced last week [1]. Without declaration, the ACCC can still challenge WLR pricing and did when it asked Telstra before Christmas why it should not be issued with a Competition Notice [2].

Stone cold stepping stones

At the same time as the Commission is flagging declaration of WLR, it is somewhat disenchanted with its "stepping stone" rationale for local call service declaration: "*The Commission believed that the LCS would provide a stepping stone toward a more facilities-based model...(but) a low priced LCS service may eventually be seen as a substitute for a ULLS based entry strategy if it presents a low risk alternative .. (and) Increasingly it is also true that the LCS provides a substitute for new technologies.... Therefore, if LCS remains an attractive service it may stifle facilities- or new technology-based competition.*"[3]. So, why compound the error by adding WLR?

The existing WLR seems very attractive by international standards. In the UK, between 3 and 5 percent of voice lines are WLR [4]. In the USA, only 3 per cent of voice lines are resold [5]. But, in Australia, over 20 percent of Telstra's 10 million lines are resold.

It gets worse. The Commission seems intent on declaring WLR so that it can unbundle value added components of basic access (eg Message Bank) and mirror retail quantity discounts in the WLR and LCS services [3]. This is over the top and out of step for "transitory" declared services.

Pricing principles

If WLR is declared, it should be priced at TSLRIC+ like related declared services such as the unbundled local loop (ULL). While WLR and ULL are different services they share many costs in common so they should be treated consistently; as Ofcom does.

Perhaps, the Commission can avoid building yet another bottom-up costing model. Ofcom prefers to use current cost accounting with fully allocated costs to TSLRIC+ for WLR (and ULL) because the former is a more transparent (auditable) way of allocating common costs. This seems worth considering here and seems consistent with the current move towards operational separation and equivalent treatment.

Competition Notice

Telstra increased its residential wholesale line rental price on 5 December from \$24.50 to \$27.60 per month (excl GST) without increasing the average price of its retail line rental

services, appearing to price squeeze its competitors. The residential WLR is now higher than Telstra Home Line Complete (\$26.95 after GT).

The Commission is disingenuous to object to Telstra supplying wholesale local services with “*a negative margin, no margin or only a small positive margin between those prices and Telstra’s retail prices for Local Services*” [1]. Its own imputation reports have consistently reported negative margins on local calls plus rental services [6]. If WLR was declared and priced at cost, the imputed margins would look even worse.

The possible Competition Notice raises issues about materiality and market definition which are beyond this short essay. My point today is that despite paying lip service to market forces and transitional regulation, the Commission constantly wanders into more market distorting regulation without a clear exit strategy and despite misgivings about its infant-industry wholesale pricing.

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[1] *Wholesale Line Rental: Reviewing and Setting Charge Ceilings for WLR Services*, Ofcom, 24 Jan. 2006

[2] Consultation Notice given in pursuit to section 151AKA(10) , ACCC, 22 Dec. 2005

[3] Pages 2, 29 and 36, *Local Services Review*, ACCC Discussion Paper, April 2005

[4] Based on Ofcom’s *WLR: Fit for Purpose Assessment* consultation (7 October 2005) and *Market Data Tables* (30 Nov 2005)

[5] Dec. 2004 data from FCC News on local telephone competition, 8 July 2005

[6] Page 18 *Imputation Testing an Non-Price Terms & Conditions Report Relating to the Accounting Separation of Telstra for the September Quarter 2005*, ACCC December 2005