

**Submissions to ACCC**  
**Future Access Pricing Approaches for PSTN, ULL & LCS**  
**Submission by AAPT to the ACCC Discussion Paper September 2002**

AAPT welcomes the opportunity to comment on the ACCC's discussion paper on future access pricing approaches for PSTN, ULL and LCU's.

AAPT notes that the Commission's discussion paper is still at a relatively high level in relation to many of the detailed issues of pricing approaches, and our responses are accordingly high level. Any questions in relation to this submission to be directed to David Havyatt, Director of Regulatory on (02) 9377 7694 or by email to [dhavyatt@aapt.com.au](mailto:dhavyatt@aapt.com.au)

While it is not part of the substance of this submission, AAPT does dispute the Commission's conclusion in relation to pricing for Non-Dominant Network globally as discussed at 1.2.3 of the Discussion Paper, and would hope that the issues in relation to pricing of Non-Dominant Network globally will be aired again in the consideration of pricing principles. Particularly, AAPT is concerned about the Commission's ongoing treatment of the element referred to as the Access Deficit Contribution, and the implications whether that is regarded as being a deficit due to a regulatory action or a market place action.

This has significant implications when the network topology of a Non-Dominant Network globally is considered because typically a Non-Dominant Network globally has a lower number of switching points and a significantly greater customer access network charge and the complete elimination of the customer access network component at the offset of a consideration of a supposedly more efficient topology greatly under values the Non-Dominant Network globally and the ACCC pricing principle in fact would result in no new networks ever being developed.

In addition AAPT notes our concern that the Commission is about to launch into a process of undertaking preparing indicative prices for PSTN, ULL, and LCS while at the same time Telstra has indicated an intension to lodge undertakings in relation to their services. It would be preferable if Telstra could be encouraged to provide those undertakings at the same time as the Commission's consideration of the indicative price terms and conditions rather than having to undertake a sequential process of analysis. The implications of the relationship between these two elements has been part of AAPT's representation in relation to the Telecommunications Competition Bill 2002.

Finally, AAPT notes the concluding paragraph of the opening of Section 3.1 of the report where the ACCC has stated "It is important to note that irrespective of which ever economic model the commission chooses to utilise in determining indicative prices for access, it is considered that, as far as possible, the modelling process should be open and transparent to public scrutiny".

AAPT's experience in access disputes to date has indicated that the difficulties that occur if, apart from having disputes about the input parameters, there is no agreement on the applicable model. The remainder of AAPT's comments are directed at the commissions proposed method.

### Future Pricing of PSTN and ULL's

AAPT agrees with the Commission's proposal that an updated TSLRIC cost model should be used to calculate the starting point for PSTN and ULLS charges. In the period of time since the original model was created for the ACCC (and indeed Telstra's own PIE model a number of matters have been discussed at length in relation to the appropriate structure of models and it would be beneficial if a new model reflecting those conversations could be constructed. As discussed above AAPT is committed to the idea of an open model and is encouraged by a suggestion that a model be constructed by Telstra to meet economic modelling requirements of the Commission. However, it is important that the model itself absent of any values for parameters is available to all industry participants who may be involved in disputes for the evaluation of the model.

In relation to the calculation of adjustment factors, AAPT notes the Commission's proposal in relation to the construction of adjustment factors, we anticipate the methodology for the creation of the specific factors will in fact be derived from the TSRML model itself, and we would prefer to reserve further estimates or comment on adjustment factors until such time as the specific methodology for the model is provided. We note, additionally, the assumption in relation the access deficit factor and believe there remains some considerations as to what the access deficit actually represents, how it has historically been recovered, and currently is recovered that need to be considered before the methodology for the ADC adjustment factor is determined.

In relation to Commission current position in relation to a number to key inputs AAPT has the following comments. AAPT concurs with the Commission's position that the arguments that an efficient Access Provider competing in a competitive market would have the option to defer an investment has still not been established. Consequently, we would concur with the ACCC that there is in fact no real option mark up for inclusion in the WACC. In relation to the model, AAPT has long argued that the model should deal with as wide a service space as possible and consequently PSTN and ISDN services should be considered together in the calculation of access deficit starting points.

AAPT would also contend that revenues accruing from the operation of line share and the provision of Telstra's own retail ADSL service should be considered. In relation to choice of modelled network AAPT has supported the so called scorched node methodology previously used. Whilst we recognise that this will potentially result in a higher access price than a more thorough scored earth approach, we recognise the benefit in relation to considering the business interest of the Access Provider. However, the operation of this

approach on the calculation of access prices needs to be considered when other arguments are made in relation to aspects of the access pricing regime, and in this regard particular attention is drawn to the Commission's conclusions regarding Non-Dominant Network globally pricing.

In relation to the access deficit contribution, AAPT believe there has been a significant amount of consideration of the access deficit that occurred in confidential submissions to the Australian Competition Tribunal and that it would be beneficial for a more wide ranging open consultation process in regard to the ADC to be conducted so that the various issues in contention can be more widely aired. AAPT contends that the access deficit continues to be overestimated in the ACCC methodology and recognition of means by which Telstra is able to recover its access deficit through other services historically has not been adequately considered.

In general, however, AAPT supports the Commission's proposal indicate prices, though we would prefer to see the more wide ranging discussion of ADC principles.

#### Indicative pricing of LCS'

While AAPT recognises the benefits of providing some forward looking certainty for access providers and seekers in relation to access prices, AAPT also believes that the dynamics of telecommunications pricing should not be ignored in the consideration of pricing principles. At their very simplest, an issue to access pricing is that once access prices for access seekers has been established all future price decisions for the access seeker occur as a fixed average cost basis, where as cost decisions implications for the access provider still remain built focused around marginal costs, consequently, regulatory errors, remains a potential regulatory benefit to be gained by the access provider if market volumes as a whole have been underestimated as the benefits of any greater increase in volume is entirely accrued by the provider and none will accrue to the access seeker.

Consequently, AAPT would support the idea of the generation of three year forward looking forecasts for LCS based around RAF information combined with an adjustment factor. However, AAPT believes that these indicative prices need to be re-established each year. That is, there is not a benefit to have one set of three year forecasters reissued every three years. The uncertainty then simply becomes rather than a annual uncertainty a three year uncertainty and creates a huge amount of uncertainty at the end of each three year cycle of forecasts.

#### Conclusion

AAPT supports the general approach being described by the commission in relation to future access pricing approaches for PSTN, ULS and LCS. However, where there are matters of contention between the ACCC and

either Access Providers or Access Seekers. It is AAPT's belief that these need to be properly aired by the ACCC through public consultation processes, as these matters will invariably arise as points of contention either through undertakings processes or still in arbitration processes. If there is to be any benefit in the indicative pricing approach it needs to be built around a thorough investigation of the core issues not merely on the basis of expediency.

As noted in the introduction, AAPT would prefer to see these matters addressed by the lodging by Telstra of the access undertakings that they have advised the Senate Environment Communications Information Technology and the Arts Committee that they have prepared and ready to submit to the ACCC on carriage of the Telecommunications Competition Bill 2002. AAPT cannot see any reason why these undertaking submissions by Telstra cannot be made immediately if they are as prepared, as has been indicated to the Parliament.