

Dear stakeholder

In the ACCC's draft decision on the DTCS FAD, the ACCC proposed to maintain a 40 per cent uplift for the undersea component on Bass Strait transmission routes. The purpose of this email is to seek your views on a proposal to increase the uplift to 140 per cent to reflect the additional costs associated with providing services over submarine cabling.

The 2012 FAD methodology for the Bass Strait uplift is based on modelling of mainland transmission routes. As part of the current FAD inquiry process the ACCC has proposed a new model developed by Economic Insights for assessing appropriate prices for mainland routes. Although we are still considering our preferred model for setting regulated prices, we are aware that each of the models preferred by Economic Insights will result in significant reductions in the prices for transmission services, particularly for high capacity, long distance services provided on the mainland. Using this substantially lower base as a basis for calculating the price for the Bass Strait transmission route means that a 40 per cent uplift is not likely to be sufficient to recover the additional costs in providing services over a submarine cable.

We accept that there are higher costs in providing regulated services over a submarine cable between Tasmania and the mainland. These include costs associated with the provision of services over, and maintenance of a subsea cable. However, it is difficult to accurately estimate the actual costs incurred. Although we sought additional costing information from each of Telstra and Basslink, the costs could not be sufficiently disaggregated to develop a costs based model. We also considered a range of other approaches, including international benchmarking, but the lack of suitable data meant that these options could not be pursued.

Basslink has provided a public version of its submission in response to the ACCC's draft decision on the FAD which is available on the ACCC website ([Basslink submission](#)). Basslink states that the proposed pricing of transmission over the Bass Strait is uneconomic and if those prices were to apply, Basslink would be unable to recover its costs. Having considered the matters raised by Basslink, we are considering the case for an increase to the uplift factor. Our assessment has been based on the outcomes of the pricing model developed for mainland transmission routes, observations of current prices for the Bass Strait services and the information provided by Telstra and Basslink. We have used statistical methods to estimate the increase in the uplift from predicted prices (generated by model 5c from the recommended models of Economic Insights). We have used standard measures of accuracy (mean percentage error, mean absolute percentage error and root mean squared error) and iteratively adjusted the uplift factor. This has resulted in slightly higher prices for the lower capacity services but as the models are non-linear, the application of a 140% uplift still leads to pricing representing a substantial reduction from observed prices on higher capacity services and an overall reduction below observed prices.

We request submissions on the proposed change to the Bass Strait uplift by Monday 21 March 2016.

The ACCC has also placed on its website the public versions of submissions to the further consultation released in December 2015 including submissions from Telstra, Telstra's expert Professor Trevor Breusch, Optus, Optus's expert Competition Economics Group and nbn. ([Submissions to further consultation](#))

We propose to proceed directly to making a final decision on the DTCS FAD as soon as practicable following the consultation on the proposed change to the Bass Strait uplift. Please contact Shane Adams (shane.adams@acc.gov.au) or Grahame O'Leary (grahame.oleary@acc.gov.au) if you have any questions.

Kind regards

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