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[www.accc.gov.au](http://www.accc.gov.au)

Jane van Beelen  
Executive Director – Regulatory Affairs  
Corporate Affairs  
Telstra Corporation  
Level 11, 400 George Street  
SYDNEY, NSW, 2000

Dear Ms van Beelen

**Re: ACCC's fixed line services access determination inquiry: request for further information**

Thank you for your letter of 6 February 2015 and the attachments setting out amendments and additions to information previously submitted to the fixed line services access determination inquiry. I refer also to Telstra's responses to requests for information provided on 19 January 2015 and 30 January 2015 and to discussions at various meetings with Telstra staff.

I note that the documentation provided by Telstra to the ACCC in its submissions of January and February 2015 does not explain the reasons for the proposed changes to the Telstra expenditure forecasts submitted to the ACCC on 3 October 2014 and to the attribution of those forecasts to the fixed line services model (FLSM) asset classes.

Telstra has not provided information on the cost causal factors (that is, the factors and activities that give rise to costs and to changes in costs) underpinning its proposed base period operating and capital expenditures or to the trend changes in those expenditures levels on which its forecasts for the period 2014-15 to 2018-19 are based. In the absence of a transparent reporting of the transfer of General Ledger (GL) entries to the asset classes used in the fixed line services model (FLSM), the ACCC will have great difficulty in being satisfied that the values assigned to the asset class are prudent and efficient, as required under the fixed principles provisions.

The ACCC requires information on the mapping of costs from General Ledger accounts to asset classes for both the base period and forecast years to enable the Commission to make a decision on the prudent and efficient costs of supplying the declared fixed line services. ACCC staff have requested this information at meetings with Telstra staff but it has not been provided. I am now writing to request that Telstra provide sufficient explanation of the attribution of costs from its GL accounts to the FLSM asset classes to allow the ACCC to identify the cost causation underpinning Telstra's expenditure forecasts provided on 3 October 2014. Also, please provide an explanation of all changes made to the Telstra's 3 October 2014 operating expenditure and capital expenditure forecasts in subsequent

submissions, including by reference to changes in assumptions regarding cost causation contributing to the change.

For example, information is required on how each of the direct and indirect activity costs/activity cost pools contained in the fixed line cost centres relate to the different asset classes to which they are assigned. The ACCC considers that information on the cost drivers assigned to these activities will assist it in considering the reasonableness of the attributions from cost centre and asset class and in identifying how demand influences activity costs in each cost centre.

Since Telstra is forecasting a considerable change in operating expenditure over the regulatory period, staff also request that Telstra identify and explain how declining demand changes (or fails to change) the size of the indirect and direct activity costs/activity cost pools within each fixed line cost centre

We also require an explanation from Telstra of how the forecast change in network size will affect the level and composition of resource consumption by fixed line cost centres. In combination with information on cost centre activities, this information will assist us to trace cost causation from changes in network size to resource consumption at the level of the general ledger.

Finally, Telstra has prepared versions of the ACCC FLSM as part of its submissions to the fixed line services FAD inquiry. The ACCC acknowledges the usefulness of having available to it these versions of the FLSM but is concerned that not all changes made within the model are clearly documented and explained in the accompanying written submissions. In particular, Telstra has stated that the amendments made to the Telstra version of the FLSM submitted on 6 February are in response to questions raised by the ACCC but also states that other changes have been identified, during further analysis, as improvements to the model. Please provide a listing of all changes made to Telstra's version of the FLSM model submitted on 3 October 2014 in the subsequent versions submitted on 19 January 2015 and 6 February 2015 with reasons why each change has been made. For changes that have already been explained in Telstra's submissions, a reference to that explanation is sufficient.

The timetable that the ACCC intends to meet for the fixed line services FAD inquiry is to release a draft decision in March and a final decision in late June 2015. I look forward to your response as soon as possible to enable this timetable to be met. Please contact Jane Goldwater ([Jane.Goldwateri@acc.gov.au](mailto:Jane.Goldwateri@acc.gov.au) or +613 9290 1493) if you have any questions regarding the information requested. Also, please provide a public version of the Telstra submission of 6 February 2015 no later than 13 February 2015.

Yours sincerely



Robert Wright  
General Manager  
Water and Wireline Markets