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Alister Montgomery
Group Manager, Economic Analysis
Telstra Corporation
Level 11, 400 George Street
SYDNEY, NSW, 2000

Dear Mr Montgomery

Re: ACCC's fixed line services and DTCS final access determination inquiries: request for further information

Thank you for your response to my letter of 3 October 2014 seeking information from Telstra to assist the ACCC in determining price terms for the internal interconnect cable (IIC) service to be included in the final access determinations (FADs) for the fixed line services.

I am now writing to request information required to price the IIC and also to clarify the cost centres used for costs of connection and disconnection activities. In addition, I am seeking information to enable the ACCC to use the FLSM as a broad cross-check against the results of the domestic benchmarking approach for pricing the domestic transmission capacity service (DTCS).

Fixed line services request for information

I understand from your letter that there is insufficient granularity in Telstra's Asset Register to identify costs and assets that are only relevant to the IIC or the TEBA rack services.

The ACCC has not yet formed a view regarding the inclusion of price terms for the TEBA rack charge in the FADs for the fixed line services. However, we consider the approach you propose to pricing the IIC and TEBA rack services is a practical method and we are seeking the information that would enable us to do that.

In considering Telstra's proposal, the ACCC seeks further information to inform itself of the cost of supplying the IIC services. In particular, the ACCC requests the following information:

- 1. Telstra asset register data that identifies assets for IIC and TEBA rack services -**
Please provide the financial asset register for assets relevant to the IIC and TEBA rack services as at 30 June 2009. The asset register should record only assets that have a remaining value as at 30 June 2009, and should also show the historic cost and accumulated depreciation by vintage (i.e., financial year in which the assets were purchased). The ACCC requests that Telstra provide the information in a format similar to that provided in the spreadsheet titled 'Telstra Confidential – (D)IHC calculation.xls' sent

to the ACCC on 22 October 2010 in response to the ACCC's September 2010 Draft Report.

2. **Provide cost allocation factors for TEBA power, TEBA rack and IIC services -** Please provide cost allocation factors for assets used to supply the TEBA power and IIC/TEBA rack services for each financial year from FY15 to FY19, using Telstra's fully allocated Cost Allocation Framework (CAF). Please also provide an explanation of the methodology and assumptions for determining these cost allocation factors within Telstra's CAF.
3. **Historical revenue and cost data for IIC and TEBA racks -** Historical revenue and costs for the IIC and TEBA racks services for each financial year for the period FY10 to FY14.
4. **Cost for Telstra Wholesale business unit -** The total cost for the Telstra Wholesale business unit for the past five financial years (FY10–FY14) and a breakdown of costs to each of Telstra's each of the fixed line, power/IIC/TEBA rack and DTCS wholesale services.
5. **Connection and disconnection costs –** To which cost centres are costs of connection and disconnection assigned? Are these costs excluded from the operating cost forecasts for the asset classes of the FLSM? If so, what methodology has been used to do this?

DTCS request for information

In its November 2014 position statement on using a domestic benchmarking approach to price the DTCS, the ACCC noted that it sees merit in using other relevant sources of information as a cross-check on the reliability of the regression results. In regard to the FLSM, the ACCC stated that:

subject to appropriate qualification, the FLSM could be used to provide an indication of whether the regression results (in aggregate) are broadly consistent with the aggregate cost estimates that can be obtained from the FLSM. Such a comparison could highlight the need for further investigation if there was a substantial disparity but would not be definitive in itself.

6. To enable the ACCC to estimate a revenue requirement for DTCS using the FLSM, the ACCC requests that Telstra provide:
 - a) forecasts of demand for Telstra DTCS services for each financial year from FY15 to FY19
 - b) an explanation of the methodology used in determining the forecasts, including the assumptions used
 - c) *either* confirmation that all of the assets used to supply Telstra DTCS services are currently included in the FLSM *or* for any additional assets that are not currently included in the FLSM:
 - o a description of those assets
 - o values for those assets that are in Telstra's asset register and have a remaining value as at 30 June 2009, showing the historic cost and accumulated depreciation by vintage (i.e., financial year in which the assets were purchased)—the ACCC requests that Telstra provide the information in a format consistent with that provided in the spreadsheet titled 'Telstra Confidential – (D)IHC calculation.xls' sent to the ACCC on 22 October 2010 in response to the ACCC's September 2010 Draft Report
 - o actual annual capital expenditure for those assets for the period FY10 to FY14
 - o any additional forecast operating and/or capital expenditures in relation to those assets that are not already included in the expenditure forecasts submitted to the ACCC by Telstra in October 2014 as part of its response to the ACCC's Discussion Paper.

- d) cost allocation factors for the assets used to supply Telstra DTCS services for each financial year from FY15 to FY19, using Telstra's fully allocated Cost Allocation Framework (CAF).
- e) an explanation of the methodology and assumptions for determining these cost allocation factors within Telstra's CAF.

As noted in the ACCC's November position statement, the ACCC acknowledges Telstra's submission on the limitations of using the FLSM to estimate a DTCS revenue requirement. The ACCC intends to consult with industry on the FLSM estimates and the limitations on using those estimates. The ACCC will also consult with industry in relation to any further investigation that may be required following a comparison of the estimated revenue requirements produced by the FLSM and the estimated revenues from implementing the domestic benchmarking approach.

I look forward to your response by 16 January 2015. Please contact Ifa Rushdi (Ifa.Rushdi@acc.gov.au or +613 9658 6401) if you have any questions regarding the information requested for the fixed line services inquiry and Annette Weier (Annette.Weier@acc.gov.au or +613 9290 6911) regarding information requested for the DTCS inquiry.

Yours sincerely



per
Robert Wright
General Manager
Water and Wireline Markets