



Further Comments on LCO Issue

November 2006

Introduction

The CCC takes this opportunity to comment further on the issues raised in Telstra's submission on the use of LCO. In particular, the argument that the use of the LCO is an inefficient use of network assets.

Telstra's arguments that the use of LCO is an inefficient use of network require close scrutiny, not least because they appear to rest on:

- An unstated assumption that the use of more of Telstra's network elements, as required to connect with other networks, is by definition inefficient, and
- The diagrams that Telstra supplies to illustrate the network elements utilised in LCO and LCS are grossly over-simplified and give a misleading impression of the network elements underlying the services.

Inefficient Use of Assets versus requirement for Interconnection with Competition

To the first point, the CCC submits that the Commission cannot accept the argument that a service that requires the use by Telstra of more network elements is an inefficient use of network assets and remain consistent with its stated goal of promoting infrastructure based competition. This position by the Commission was further reinforced by Ed Willett's recent comments regarding infrastructure competition.

"We've long recognised that the essence of competition in this country in telecommunications is to encourage competitors to build their own facilities rather than simply acquiring wholesale access from incumbents who have already made the investment and then reselling it to consumers," Willett said.

The entry into the market of competing networks necessarily means different, and usually additional, network assets must be deployed by Telstra to interconnect with other networks. There are many examples of network assets that Telstra has had to deploy since the introduction of competition in order to allow for the interconnection of services with competitive networks.

Telstra's argument could be extended to any service designed to allow competitive entry, up to and including the ULLS. However, this is clearly absurd. It may be true at one level that the most efficient network arrangement would be to have a single national network. However, effective competition in such an arrangement would require structural separation of the network from any retail activity. Whilst Telstra remains integrated, it must accept that it must invest in those assets required to pass traffic to competitors.

Further, Telstra's argument cannot be seen to be a commentary on the appropriate use of the network elements deployed by other carriers. That is, Telstra is arguing that competitors should not be allowed to bring local calls from their own customers onto their own switches because this is inefficient for Telstra and not necessary for the

competitor, because Telstra will resell their own traffic management and connection. The CCC contends that other carriers that have invested in their own infrastructure are entitled to make use of that infrastructure and to avoid buying a resale service from Telstra. They should not be prevented for maximising the volume of traffic from their own customers that utilises those assets.

Notwithstanding the fact that the switching infrastructure is already deployed, the incremental cost to Telstra to carry LCO calls would be negligible. This is due to the fact that, in the CCC view, the portion of LCO calls to all PSTN calls is negligible (i.e. significantly less than 1%).

Network Topologies

The second point relates to the oversimplification of the network diagrams provided in Telstra's submission to you on this issue. The diagrams are, the CCC submits, misleading and unreliable and the Commission cannot draw any conclusions based upon them.

Below are representations of the network elements utilised in LCO and LCS, as the CCC understands it. In summary, these suggest that there are far more elements utilised to deliver LCS than Telstra has indicated, and that the use of LCO does not have a material impact on the dimensioning of Telstra's network.

Conclusion

The CCC submits that Telstra has not provided sufficient information for the Commission to draw any conclusions, even tentatively, about the appropriateness of the use of LCO. The CCC suggests that the appropriate course of action for the Commission is to require Telstra to present a far more detailed and comprehensive argument if it wishes the Commission to draw any conclusions on this issue. It is also clear that the process of considering responses to the draft indicative prices for PSTN, WLR and LCS is not the appropriate place for this to be considered.

If you have further queries, please contact:

David Forman
Executive Director
CCC Inc
0438121114
david@ccc.asn.au

Typical LCO Network Topologies

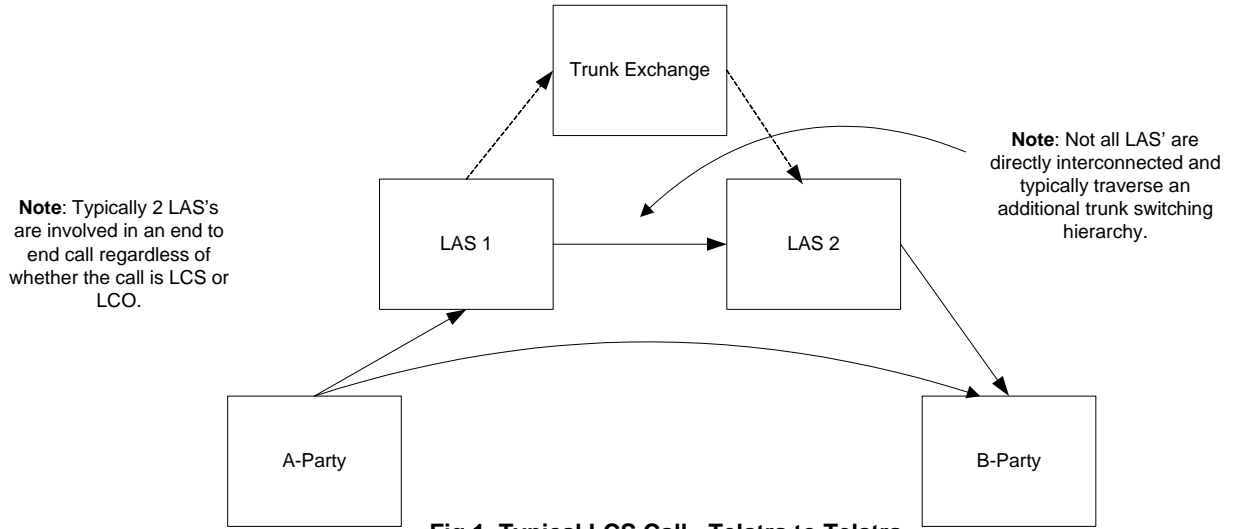


Fig 1. Typical LCS Call - Telstra to Telstra

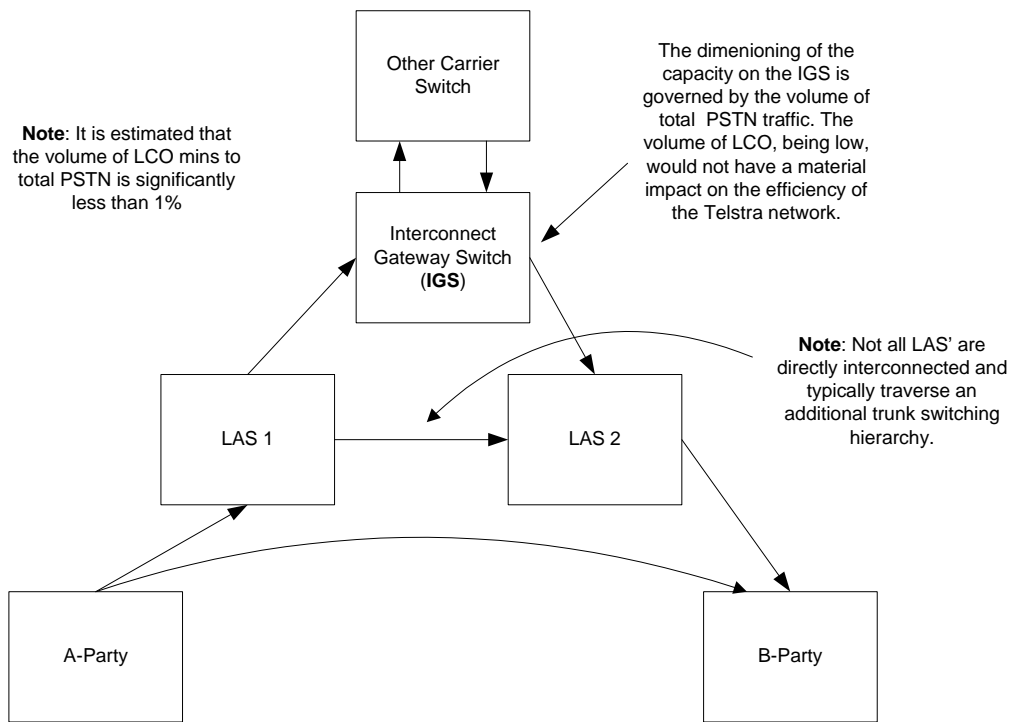


Fig 2. Typical Interconnected Call - Telstra to CSP

