17 February 2015

Ms Cristina Cifuentes
Commissioner
ACCC
By email

Dear Cristina

ACCC's Fixed Line Services Review

We are writing to express our concerns with the current consultation process for setting the Fixed Line Services FAD and to suggest some process improvements to increase industry transparency and confidence in the decision making process.

Specifically we are concerned that non-Telstra players will not be given visibility of the model and potentially material changes in approach until a draft decision is released.

The 2011 FAD was based on a building block methodology and a set of fixed principles. It was supposed to provide a level of regulatory certainty to future inquiries, by establishing the value of the regulated asset base and the basis for allocating costs to services. At the time the asset base was established, the Commission explicitly adjusted the base to effect wholesale price stability. It appears that material Telstra is putting to the ACCC will fundamentally change the established approach.

In July 2014 Telstra proposed a fundamental change to the method of cost allocation with the fixed line model. However, to date industry has not had a proper opportunity to understand the likely impact of these changes or to comment on them:

- There was an industry forum where Telstra outlined its approach, but queries by Access Seekers were not permitted. Telstra advised Access Seekers that it intended to update its cost allocation proposal and demand forecasts, and as such, there was little value in Access Seekers providing detailed comments in response to the FAD Discussion Paper.

- Telstra has drip fed information to the ACCC and the data supplied has been subject to several revisions. For example, a revised model Telstra put to the ACCC in December 2014 was materially altered in February 2015.

- Telstra has been afforded several meetings with Commission staff to detail the proposed changes, without any opportunity for access seekers to participate in those discussions or to provide input to the ACCC.

As discussed above, the opening value of the RAB determined in 2011 is intrinsically linked to the partial allocation method adopted. A move away from the existing allocation approach will necessarily alter the RAB valuation, thereby undermining the rationale for adopting the building block approach.

It is not clear whether the ACCC intends to re-open issues determined in 2011 by accepting any or all of the changes proposed by Telstra. We are particularly concerned, however, that the ACCC is proposing to move straight to a Draft Decision without providing guidance on these material issues. If the ACCC proposes to change its approach to allocations, then Access Seekers should have an opportunity to comment. Changes to allocation assumptions create large variations in regulated charges. For example, we have a situation where industry expected constant prices, or a slight decline, to one where Telstra originally requested a 7.2% uniform increase, [redacted] **[CiC Begins]** [redacted] **[CiC Ends]**.

To help address the concerns raised in this letter and ensure that all industry players have a fair opportunity to input to the decision making process we recommend that the ACCC releases an Issues Paper addressing its proposed approach to cost allocation and its relationship to the value of the RAB *prior* to issuing a Draft Decision.

A Draft Decision, issuing draft pricing proposals based on changes to the cost allocation structure of the FLSM, will materially impact on the business of Access Seekers. Accordingly, it is our view that a draft decision should only be released once issues of approach and methodology have been subject to detailed consultation.

Yours sincerely

Andrew Sheridan, Head of Interconnect & Economic Regulation – Optus

Matthew Healy, Chairman, Competitive Carriers Coalition