

Model Price Terms and Conditions for PSTN, ULLS and LCS - Submission by PowerTel Limited

PowerTel welcomes the opportunity to comment on the Commission's discussion paper on model price terms and conditions for PSTN, ULLS and LCS.

These core services are fundamental building blocks to the competitive supply by PowerTel of a number of retail services to end-users and wholesale services in Australia.

As a result, the price that PowerTel pays for these core services has a direct and significant impact on PowerTel's ability to compete with a significant and direct flow on effect to the long term interests of end users of telecommunications services.

Executive Summary

In summary, PowerTel has real concerns that the Commission has expressed an inclination to use Telstra's PIE II model to determine prices for PSTN O/T and ULLS instead of an independently developed model. Specifically, PowerTel is concerned that:

- the prices charged for these services will be artificially inflated as a result;
- the industry will not be comfortable that the prices charged for these services accurately reflect the true forward looking costs of providing these services as they have been developed using a model developed by Telstra; and
- in any event, the PIE II model is not a true TSLRIC model as it adopts a scorched node approach instead of a scorched earth approach.

PowerTel considers that this approach is not in the long term interest of end users.

The Commission must adopt a cost model that nurtures competition, is in the long term interests of end users and which can not be criticised for lack of independence. PIE II can not achieve this result and it is simply not good enough to cite time or resource constraints as a justification for using PIE II.

PIE II is not an independently developed model

The Commission has expressed an inclination to use Telstra's PIE II model on the basis that:

- PIE II has updated asset values and network configuration;

- while other models use averages, PIE II is designed to model each individual service in use when building the PSTN as accurately as possible; and
- while the PIE II model is current, other models (including n/e/r/a) are not and it would be more difficult to use such models to determine prices for the next financial year.

“While the Commission believes that the PIE II model requires considerably more scrutiny, the model does appear to have certain advantages compared to other possible models that could be used. In particular, the model has updated asset values and network configuration. Also, while other models use averages, PIE II is designed to model each individual service in use when building the PSTN as accurately as possible. Further, while PIE II is current, models previously used by the Commission and other parties (such as the n/e/r/a model) would require significant revisions and augmentation. This would make it more difficult to use such models in a timely fashion to determine indicative prices, at least for the next financial period, 2003-04.”

It is in Telstra’s commercial interests to keep prices for PSTN O/T and ULLS as high as possible. Telstra has developed the PIE II cost model as a tool to help it further its own commercial interests by claiming the costs of providing these core services are higher than they actually are.

As a result, PowerTel considers that it is inappropriate for the Commission to rely on PIE II.

PowerTel is disappointed that the Commission appears to be leaning towards use of PIE II simply because other models, specifically the independently developed n/e/r/a model, have not been maintained and that time restrictions do not allow for an update. The question that needs to be asked is why has the n/e/r/a cost model not been maintained?

The Commission has indicated in the discussion paper that the inputs and assumptions used in the PIE II model will be those the Commission considers appropriate.

In any case, if the PIE II model is to be used for the purposes of any glide-path or adjustment approach, at the very least, all the assumptions behind, and inputs into the PIE II model would be those the Commission considers appropriate.

However, PowerTel does not consider that this is sufficient to offset the concerns we have about the Commission’s adoption of PIE II.

PowerTel considers that the cost model used should be independently developed because this will mean that:

- the prices paid for PSTN O/T and ULLS will more accurately reflect the forward looking cost of providing those services;
- Telstra will cease to be rewarded for its inefficiency;

- the industry will be more comfortable that the prices paid for these services have been developed without undue influence from Telstra; and
- the long term interests of end users will be adequately provided for.

In addition, PowerTel has serious concerns about the Commission's objectivity in reviewing Telstra's most recent access undertakings if Telstra's PIE II model is adopted for setting indicative prices as it would amount to the giving of tacit approval of the PIE II cost model.

PIE II is not a true TSLRIC model

PowerTel considers that the Commission should adopt a scorched earth cost model, ie the cost model should assume that Telstra's network is rebuilt and that the number and location of Telstra's current local switches should only be retained if they reflect optimal network design, optimal technology and the most efficient deployment of that technology.

PowerTel is disappointed that the Commission has all but ruled out a scorched earth cost model.

“The Commission has so far preferred a TSLRIC model that follows a scorched node approach, and which is one that models the access provider's network as it would look if it were optimised. This has implications for a number of assumptions and inputs into the model, such as the existence of network planning costs, and the level of trench sharing in new estates. The Commission would need to see substantial new arguments if it were to move away from this position.”

PowerTel considers that the Commission is inconsistent in its approach on this issue. The Commission states that a TSLRIC approach should be used to determine the cost of providing PSTN O/T and ULLS. However, the Commission then advocates the use of a cost model that is not a true TSLRIC model.

At this stage PowerTel is still negotiating with Telstra to gain access to the PIE II model and so will be able to provide more detailed comment in its submission on Telstra's most recent access undertaking.

Conclusion

PowerTel considers that the Commission must adopt a cost model that nurtures competition, is in the long term interests of end users and which can not be criticised for lack of independence. This can only be achieved through use of an independently developed cost model.