

**THE MATTER OF UNDERTAKINGS
DATED 23 DECEMBER 2005 PROVIDED
BY TELSTRA CORPORATION LIMITED
TO THE AUSTRALIAN COMPETITION
AND CONSUMER COMMISSION IN
RESPECT OF UNCONDITIONED LOCAL
LOOP SERVICE
("the Access Undertakings")**

STATEMENT OF [c-i-c]

On 21 August 2006, I, [c-i-c] of [c-i-c], Melbourne, in the State of Victoria, Economist, state as follows:

1 [deleted]

2 I refer to my statement in this matter dated 21 July 2006 ("**Previous Statement**").

PRICE INDICES USED TO REVALUE NETWORK ASSETS

3 I have been asked to estimate price increases over various periods between 1 and 10 years for the following asset categories, which are the major assets used in constructing the customer access network:

- (a) main cable;
- (b) main conduit & trenching;
- (c) distribution cable;
- (d) distribution conduit & trenching.

4 In my Previous Statement I outlined a methodology for estimating such price trends in the context of ULLS. For that purpose I relied on escalators that have been used in the construction of Telstra's Current Cost Accounts prepared under limb 1 of Accounting Separation. In particular I relied upon:

- (a) the Australian Bureau of Statistics ("**ABS**") price index for prices of electric cable & wire manufacturing to escalate the materials component of "main cable" and

“distribution cable” assets. Chart 1 in Annexure A depicts the movements in this index, which I have used in the calculations set out below;

- (b) the ABS price index for prices of plastic extruded product manufacturing to escalate the materials component of “main conduit and trenching” and “distribution conduit and trenching” assets. Chart 2 in Annexure A depicts the movements in this index, which I have used in the calculations set out below.

5 I also relied on wage escalators similar to those that have been used in the construction of Telstra’s Current Cost Accounts prepared under limb 1 of Accounting Separation. However, as I explained at paragraphs 17 through 19 of my Previous Statement I have preferred the wage price index data (also published by the ABS) to the average weekly ordinary time data. In particular I relied upon:

- (a) the ABS wage price index for wages of the communications services sector to escalate the labour component of “main cable” and “distribution cable” assets. Chart 3 in Annexure A depicts the movements in this index, which I have used in the calculations set out below;
- (b) the ABS wage price index for wages of the construction sector is applied to escalate the labour component of “main conduit” and “distribution conduit & trenching” assets. Chart 4 in Annexure A depicts the movements in this index, which I have used in the calculations set out below.

6 Chart 5 in Annexure A depicts the ABS price index of copper & brass materials used in the fabricated metal products industry. This is an indicative measure of the price that a manufacturer of fabricated metal products (including of copper wire) would have to pay to purchase the copper input. Although this particular price index is not directly used in the costing of the network assets it is strongly indicative of sharply rising costs for an input into network construction.

7 Chart 6 in Annexure A depicts the Consumer Price Index, a broad measure of price movements against which other price movements are often benchmarked.

8 I sourced the data used in the calculation of network price escalators and depicted in Charts 1 to 6 in Annexure A from the ABS website (ABS.gov.au).

- 9 The table below itemises the price movements in the above categories over the last year, and the last 4 and 10 years.

Escalator	1-year increase	4-year increase	10-year increase
Prices of extruded plastic products manufacturing	8.6%	23.9%	162.5%
Prices of electric cable & wire manufacturing	27.1%	48.8%	25.5%
Wages in Construction sector	5.5%	20.0%	41.1%
Wages in communications services sector	3.4%	12.9%	30.7%
Prices of copper & brass used in manufacturing	55.0%	76.0%	102.5%
Consumer price index	4.0%	12.1%	28.8%

- 10 The figures in the above table represent cumulative per cent changes over the various periods identified and not compound average annual changes.
- 11 I have weighted the above escalators to the components of the customer access network as set out in paragraphs 22 through 25 of my Previous Statement using the following weights:

Price indices	Labour	Material
Main cable	53.8%	46.2%
Main conduit & trenching	74.1%	25.9%
Distribution cable	66.5%	33.5%
Distribution conduit & trenching	71.0%	29.0%

- 12 The movements in the implied price escalators for the major components of the customers access network for the last year and the last 4 and 10 years are itemised in the table below.

Asset	1-year increase	4-year increase	10-year increase
Distribution conduit & trenching	5.5%	20.7%	76.5%
Main conduit & trenching	5.3%	20.5%	73.3%
Distribution cable	11.0%	24.2%	38.1%
Main cable	14.0%	28.7%	36.0%

- 13 The figures in the above table represent cumulative per cent changes over the various periods identified and not compound average annual changes.
- 14 Charts of these network asset specific escalators are included at Annexure B.
- 15 I am advised by [c-i-c] of Telstra that the four major asset categories discussed above represent around 90% of the value of the total network assets used in delivering the ULLS. The individual shares of each of the four major asset categories is shown below.

Asset category	Share of total network assets
Main cable	39.1%
Main conduit & trenching	27.0%
Distribution cable	2.4%
Distribution conduit & trenching	17.8%
Other assets	13.7%

- 16 Using the above shares to construct weights I have constructed a composite price escalator for the network assets used in the provision of ULLS. For the other assets category I have used the CPI which likely introduces an element of conservatism as the increase in the CPI has been below that estimated for the four major network asset categories. The movements in this composite price index are depicted in chart 5 of Annexure B and summarised below.

Asset	1-year increase	4-year increase	10-year increase
Composite for network assets	8.7%	22.7%	51.5%

- 17 The figures in the above table represent cumulative per cent changes over the various periods identified and not compound average annual changes.

Dated: 21 August 2006

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[c-i-c]

Annexure A

Chart 1

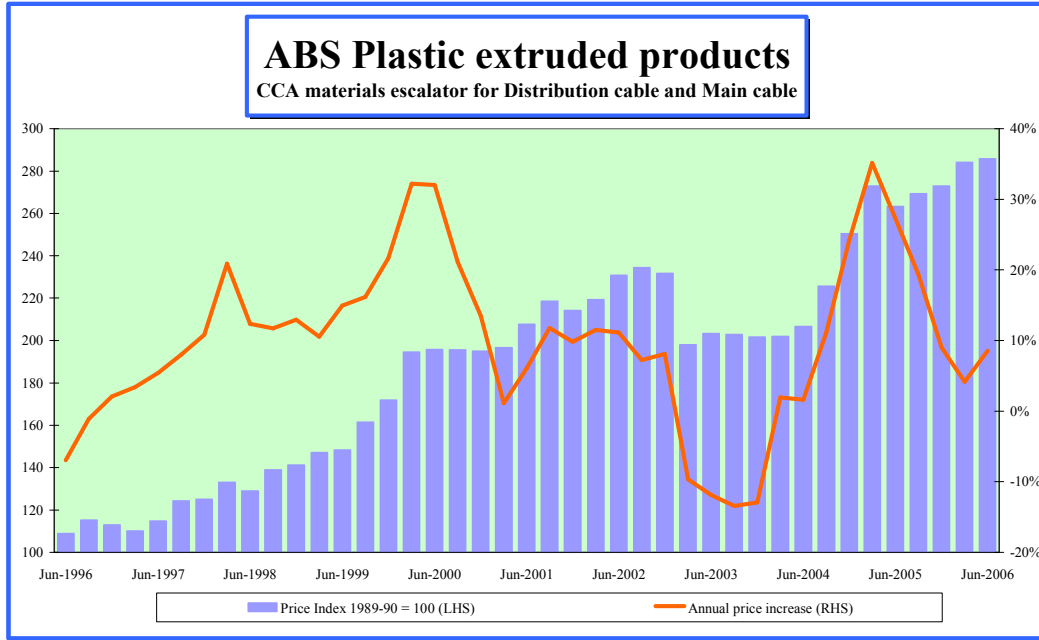


Chart 2

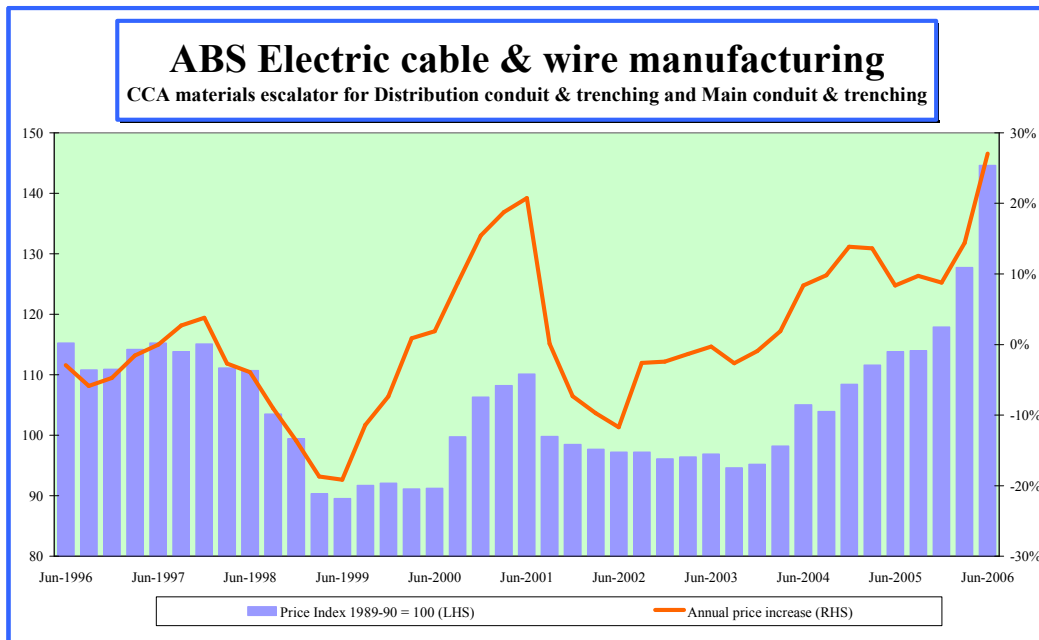


Chart 3

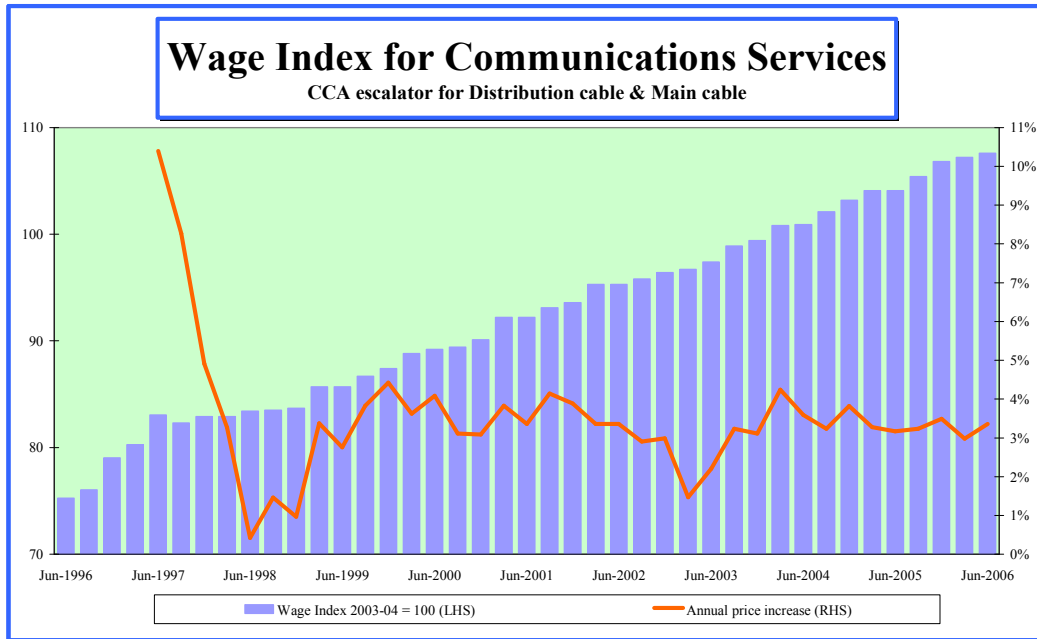


Chart 4

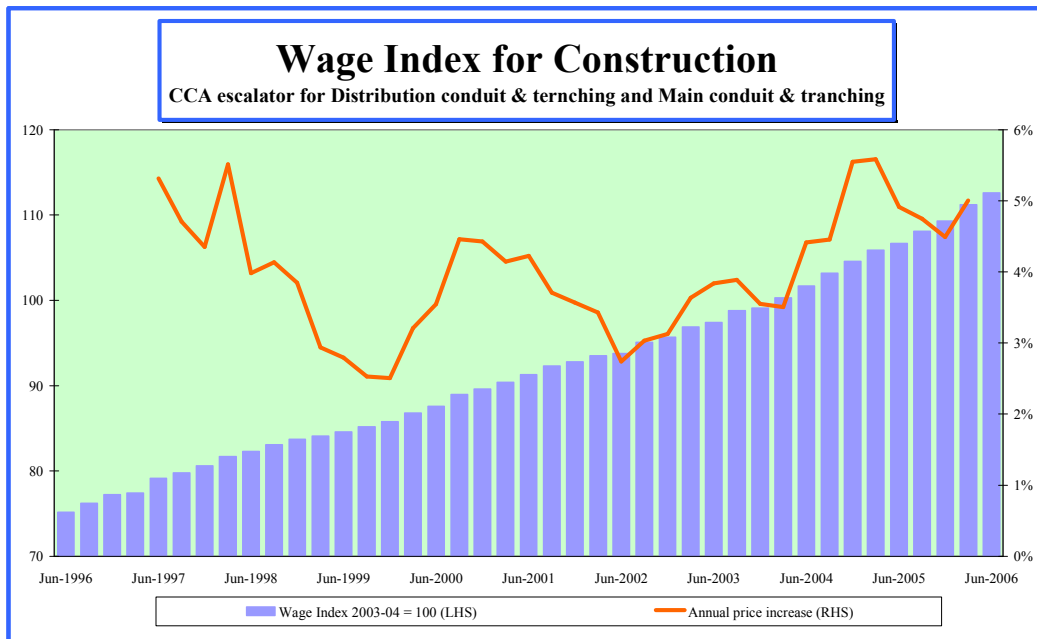


Chart 5

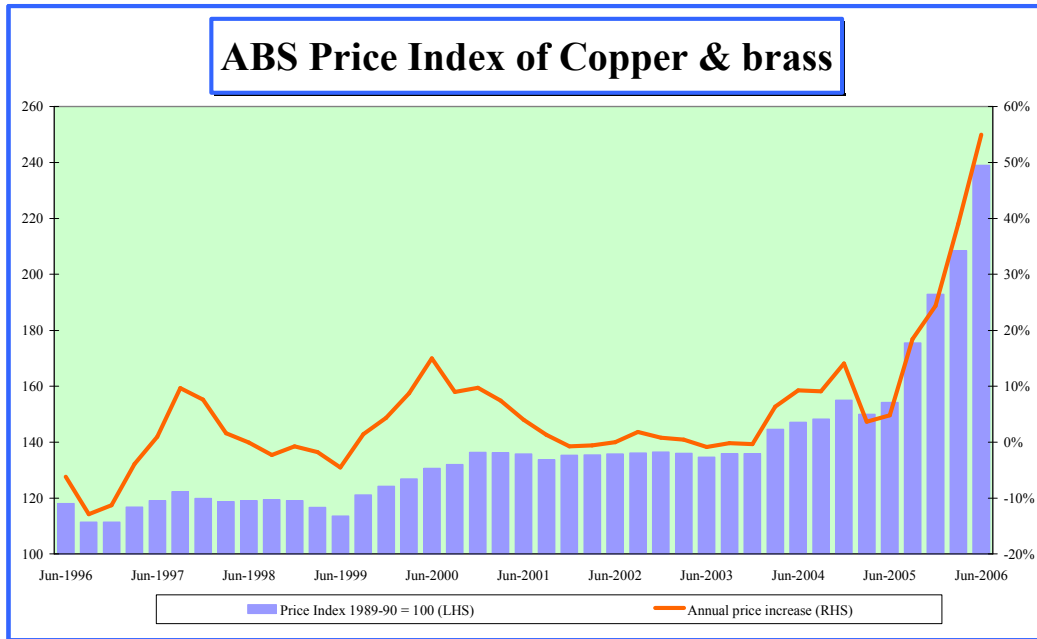
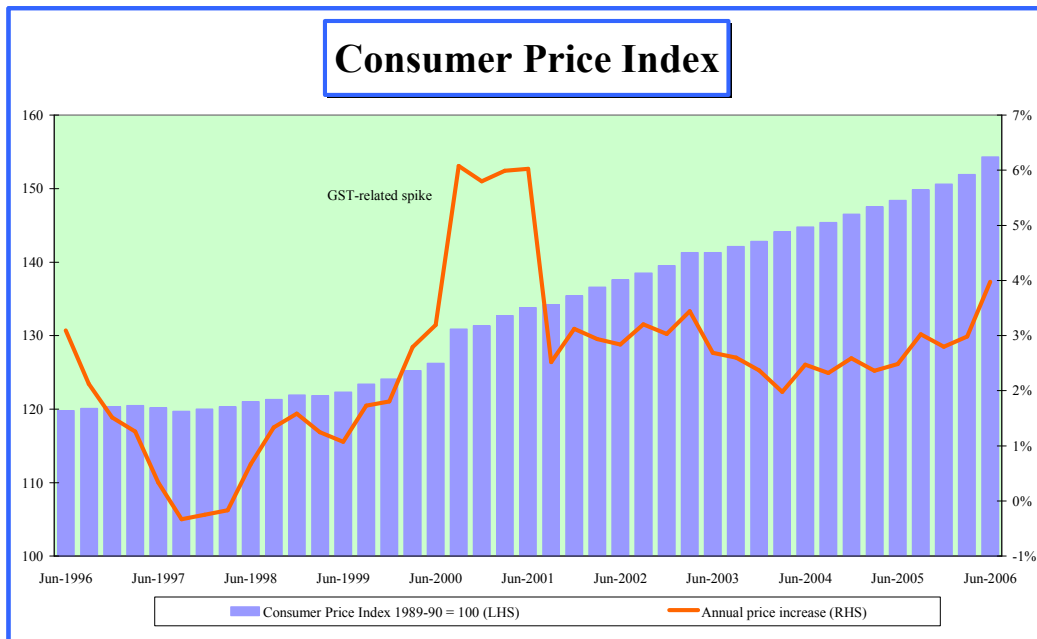


Chart 6



Annexure B

Chart 1

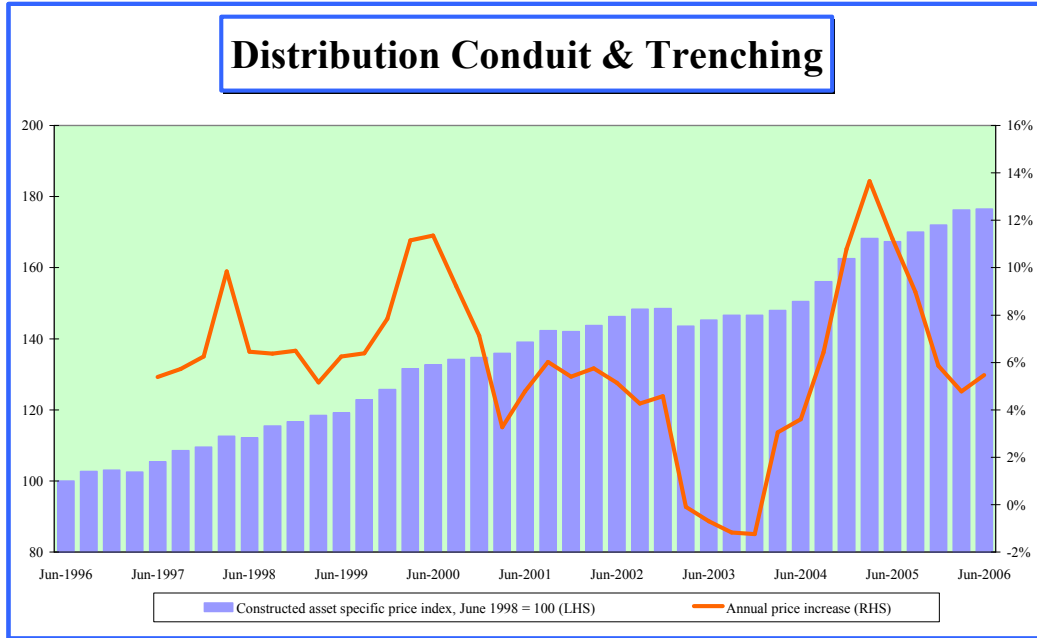


Chart 2

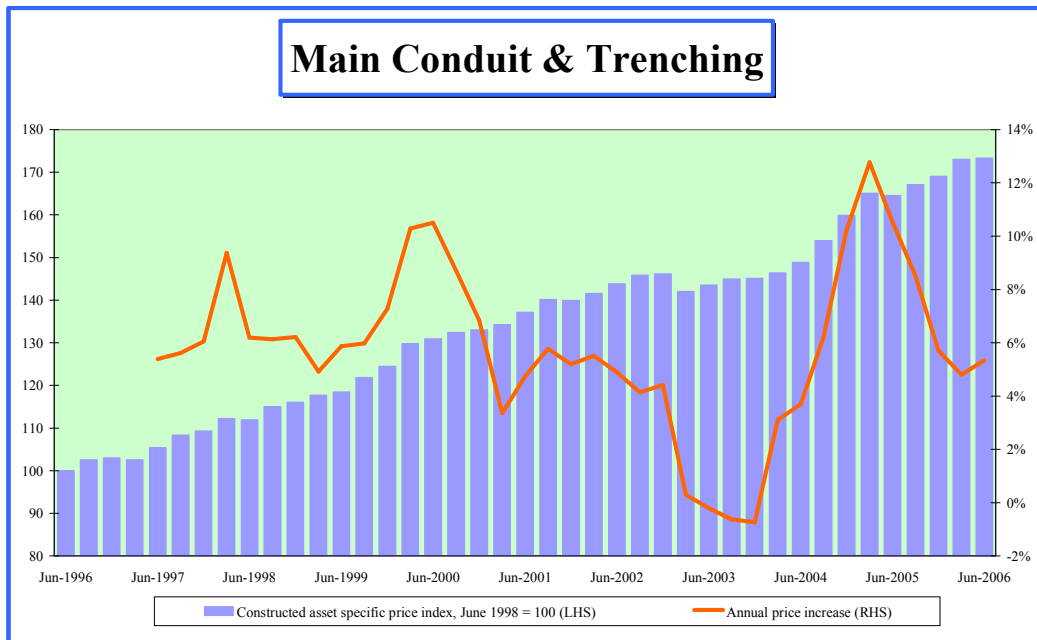


Chart 3

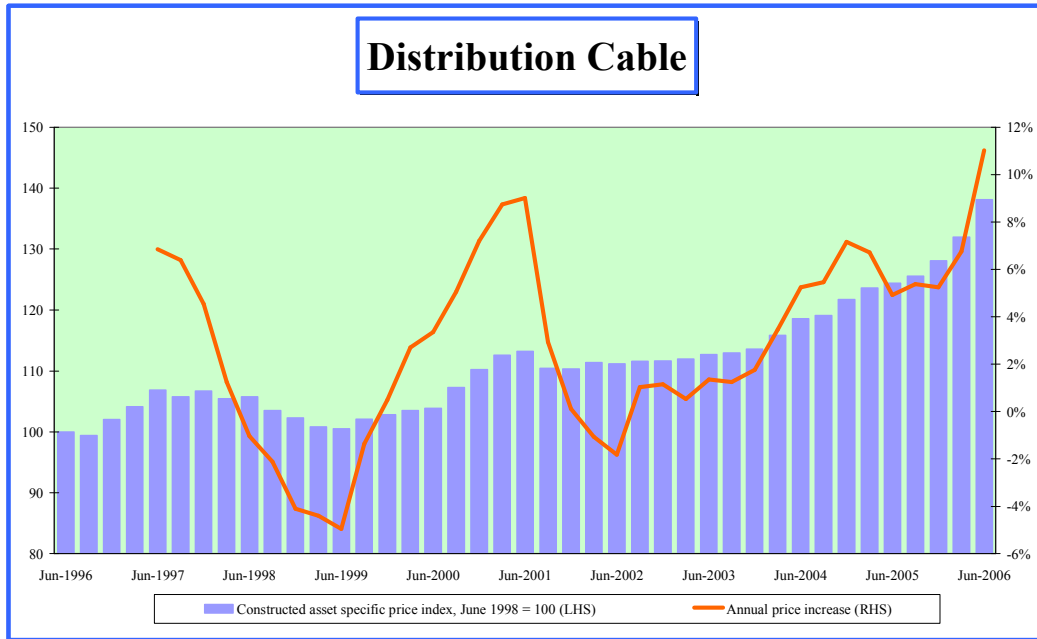


Chart 4

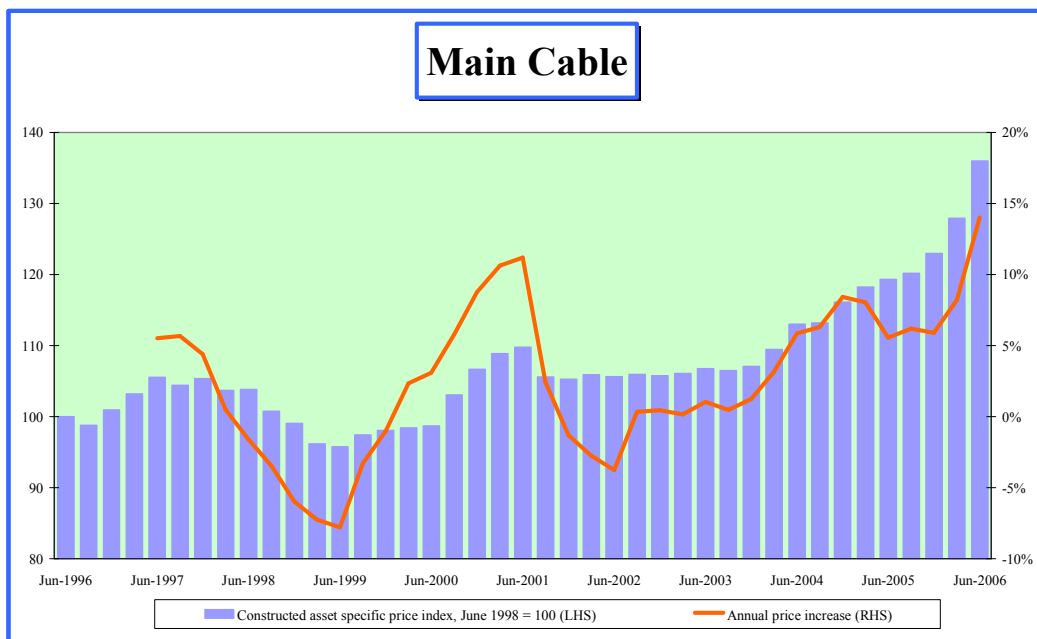


Chart 5

