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

SUPPLEMENTARY STATEMENT OF [c-i-c]

On 11 August 2006, I, **[c-i-c]**of **[c-i-c]**, Melbourne in the State of Victoria, **[c-i-c]**, state as follows:

1 [deleted] :

Statement

2 I refer to my previous Statement dated 3 August 2006 ("**3 August Statement**").

Revised Specific Cost Model

3 I refer to the revised specific costs model for Unconditioned Local Loop Service ("**ULLS**"), annexed to this statement as Annexure A.

4 Using the revised specific costs model, the costs in the second table in paragraph 17 of my 3 August Statement are as follows:

Total specific costs:

Year	**Cost - Low WACC**	**Cost - High WACC**
2005/06	**[c-i-c]**	**[c-i-c]**
2006/07	**[c-i-c]**	**[c-i-c]**
2007/08	**[c-i-c]**	**[c-i-c]**

5 Using the revised specific costs model, the costs in the tables contained in paragraph 18 of my 3 August Statement are as follows:

Using a figure of **[c-i-c]** *for product management costs:*

Year	Cost - Low WACC	Cost - High WACC
2005/06	**[c-i-c]**	**[c-i-c]**
2006/07	**[c-i-c]**	**[c-i-c]**
2007/08	**[c-i-c]**	**[c-i-c]**

Using a figure of **[c-i-c]** *for product management costs and combining that with the updated front of house costs:*

Year	Cost - Low WACC	Cost - High WACC
2005/06	**[c-i-c]**	**[c-i-c]**
2006/07	**[c-i-c]**	**[c-i-c]**
2007/08	**[c-i-c]**	**[c-i-c]**

6 Using the revised specific costs model, the costs in the table contained in paragraph 26 of my 3 August Statement are as follows:

ULLS specific costs using a flat annuity formula:

	2005/06 H2	2006/07	2007/08
Low WACC	**[c-i-c]**	**[c-i-c]**	**[c-i-c]**
High WACC	**[c-i-c]**	**[c-i-c]**	**[c-i-c]**

Miscellaneous Transmission -Asset Lives

7 One of the inputs in the PIE II model is the asset life for miscellaneous transmission. This input is not used in the calculation of ULLS costs.

IEN costs

8 The network costs of ULLS are calculated using the customer access network module in the PIE II model and not the inter-exchange module of that model.

Lead-ins

9 I have been asked to comment on the estimate of the costs of lead-ins. The network costs estimated by the PIE II model for ULLS did not include the cost of lead-ins.

10 I have estimated the lead-in costs as **[c-i-c]** per Service in Operation ("**SIO**") per month using the method described in paragraph described in paragraphs 11- 14 below.

11 The two major inputs I have used in that calculation are:

(a) the average time period expended by a technician to install a lead-in of **[c-i-c]** hours. On 6 June 2006, **[c-i-c]** (Telstra Program Office) provided me with an estimate of between **[c-i-c]** hours and **[c-i-c]** hours for installation of a lead-in. I used the midpoint of this estimate.

(b) the average labour rate of **[c-i-c]** per hour. This average labour rate was calculated in the manner described in paragraphs 15 to 25 below.

12 This produces a lead-in cost of $159.75.

13 Total lead-in costs were then derived by multiplying $159.75 by the number of basic access SIOs to obtain an upfront capital cost of **[c-i-c]**.

14 The upfront capital cost was then annualised over a period of **[c-i-c]** to calculate the amount of **[c-i-c]** per SIO per month.

Pay rates for CFW4 workers

15 In order to calculate the labour rate referred to in paragraph 11(b) above, a member of the Strategic Cost Analysis ("**SCA**") Group started with the Award Pay Rates, as at 1 January 2004 for Customer Field Workstream 4 ("**CFW4**") as set out in the Enterprise Agreement 2002-2005. A copy of the Enterprise Agreement is at Annexure B to this statement. The pay rates for CFW4 were as set out in paragraph 1 of Confidential Annexure C. The Enterprise Agreement also contains the job specifications of CFW4 staff.

Team Leader costs

16 The next step was to calculate how many Level 6 team leaders were employed for every CFW4. In order to determine this, a member of the SCA Group:

(a) extracted the number of Level 6 team leaders in metropolitan areas in Brisbane and in regional areas in Queensland from Telstra's Electronic Working Report System ("**EWRS**") and Telstra's Time and Allowance Processing System ("**TAPS**");

(b) extracted the average number of CFW4 employees in each of those regions from EWRS and TAPS; and

(c) divided one by the other to obtain an estimate of the average number of CFW4 workers per team leader in a typical metropolitan area (being **[c-i-c]**) and a typical regional area (being **[c-i-c]**) as a proxy for all metropolitan and regional areas.

Therefore, on average, one Level 6 team leader is employed for every **[c-i-c]** CFW4 workers.

17 A member of the SCA Group then estimated the Level 6 team leader's salary by extracting the average amounts paid to Level 6 staff from Telstra's HR Pay System. **[c-i-c]** of that amount set out in paragraph 2 of Confidential Annexure C was allocated to the CFW4 labour costs (being the amount set out in paragraph 3 of Confidential Annexure C) to derive the total wage cost of **[c-i-c]** for CFW4.

Other salary costs

18 A member of the SCA Group then calculated other salary costs as follows:

(a) superannuation of 9%. This is Telstra's employer superannuation contribution level as defined in the Telstra Superannuation Scheme ("**TSS**") rules;

(b) payroll tax of 6.3%;

(c) workers compensation of 1%; and

(d) leave bonus of 1.3%.

A member of the SCA Group sourced the percentage rates for payroll tax, worker's compensation and leave bonus from Telstra's Guidelines for Investment Evaluation. A copy of the relevant extracts from the Guidelines for Investment Evaluation is at Annexure D to this statement.

Indirect Labour Costs

19 A member of the SCA Group then estimated the indirect labour costs for ULLS as set out in paragraph 4 of Confidential Annexure C.

20 The member of the SCA Group estimated the above percentages by:

(a) extracting data for the total:

(i) costs for Human Resource Management, Information Technology, Accounting & Finance, Business Administration and Property Management; and

(ii) labor costs;

allocated to ULLS in the regulatory accounting framework ("**RAF**") accounts for the period 1 January 2004 to 30 June 2004; and

(b) dividing one by the other.

21 Property management costs were included because there will be some property costs associated with CFW4 staff. For example, CFW4 will use such things as training facilities and work depots to re-supply stock and materials in vans.

22 All of the indirect labour costs identified at paragraph 19 above are attributable to labour involved in lead in installation.

Total Labour Costs

23 A member of the SCA Group then calculated the total cost per annum by adding up the costs identified at paragraphs 15 to 19 as set out in paragraph 5 of Confidential Annexure C.

Hourly rate

24 In order to derive the hourly rate, a member of the SCA Group divided the total per annum costs by the total number of effective hours worked by CFW4 staff. A member of the SCA Group derived this as follows:

(a) There are 365.25 days in a year but 104.36 of these are weekends. Therefore the total number of paid days is 260.89.

(b) From the total number of paid days the following days were deducted:

Public Holidays	**[c-i-c]**
Special Telstra Holiday	**[c-i-c]**
Recreation Leave	**[c-i-c]**
Average Sick Leave	**[c-i-c]**

Long Service Leave (3 Months in 10 Years)	**[c-i-c]**
Total Leave Days (include Planned & Unplanned)	**[c-i-c]**

A special Telstra holiday is a holiday given to Telstra staff in addition to annual leave of **[c-i-c]** days. The average sick leave is derived based on an average of **[c-i-c]** days per year for award staff plus a component of special leave. Both were sourced from Telstra's Investment Evaluations Guidelines, the relevant extracts of which are at Annexure D to this statement. Telstra provides the entitlement to long service leave of **[c-i-c]**. Unlike recreational leave, the three months includes weekends and public holidays. To calculate the annual long service leave, the number of long service leave days per year (**[c-i-c]** days per year) was multiplied by the total number of paid days (being 260.89). This sum was divided by the total number of days per year (365). Deducting the leave days from the number of paid days totals **[c-i-c]**.

(c) The Enterprise Agreement provides that workers work **[c-i-c]** hours per day or **[c-i-c]** hours per week. In order to calculate the number of working hours per year, the total paid days per year **[c-i-c]** was multiplied by the number of working hours per week **[c-i-c]** and divided by five days in order to derive an annual working hours of **[c-i-c]**.

(d) The next step is to derive the percentage of time spent by workers performing field activities as opposed to other tasks, such as attending team meetings or training. Telstra CFW4 staff record time spent doing tasks on EWRS. From the EWRS a member of the SCA Group sourced the number of hours spent on field work by technical staff (being total work hours of **[c-i-c]**). From that amount, **[c-i-c]** hours for approved leave were subtracted. The total non-field related work (**[c-i-c]** hours) was then divided by **[c-i-c]** to derive a percentage of **[c-i-c]** spent on non fieldwork. Therefore the total effective hours of a worker are **[c-i-c]** (being the total annual working hours (**[c-i-c]**) multiplied by **[c-i-c]**).

25 The average labour rate is calculated by dividing the total labour cost in paragraph 5 of Confidential Annexure C by the total effective hours of a worker in paragraph 24(d) above.

DSL costs

26 I have been asked to calculate ULLS, Line Sharing Service ("**LSS**") and xDSL specific costs and spread them over all xDSL, ULLS and LSS lines.

27 For the calculation of the ULLS costs I have used the revised specific costs model which is Annexure A to this statement, but have made the following changes:

- I have used the quarter 3 PTP ULLS forecast for each year instead of quarter 1 ULLS forecasts; and
- I have extended the model to include 2008/09 capital and operational spend.

28 For the estimation of the LSS costs I have used the LSS specific costs model which is Annexure E to this statement. This LSS specific cost model is the same model as was submitted to the Commission in support of the LSS Undertaking dated December 2004 with the following changes:

	LSS model submitted to the Commission	**Revised LSS model**
Year	2001/02 - 2005/06	2001/02 - 2008/09
Expense realisation period	All expenditure in 2001/02 realised in 2002/03	All expenditure realised in the year expenditure incurred
Demand Forecast	PTP 2005/06 Q1	PTP 2005/06 Q3
WACC used in Capital Charge Formula	2001/02 WACC used eg. 11.97%	Based on prevailing WACC for particular year
Capex	As submitted	Revised
Opex	As submitted	Revised
Indirect Opex	As submitted	Based on revised Capex and Opex

29 In order to identify the relevant costs in respect of retail and wholesale xDSL, I have identified the relevant costs and volumes of xDSL services and costs from an xDSL profit and loss statement, which is Annexure F to this statement. The xDSL profit and loss statement is a document maintained and regularly updated by Telstra staff. It sets out, among other things, all of the costs associated with xDSL services and the expected volumes of xDSL services. This document is used by Telstra staff for the purpose of making all planning and pricing decisions with respect to xDSL services.

30 The costs which I have used from the xDSL profit and loss statement are the specific, non-network costs of Telstra's xDSL services (including but not limited to IT operations and maintenance ("**O&M**"), front of house, wholesale product management, connection group, technical support, billing support and administration costs).

31 I have aggregated all of the xDSL, ULLS and LSS costs in a model, which forms Annexure G to this statement. The output of that model are costs of $**[c-i-c]** per month per SIO.

Double Recovery

32 The ULLS specific costs are:

(a) not recovered by Telstra as part of the following charges:

(i) connection charge;

(ii) call diversion;

(iii) invalid request;

(iv) service qualification;

(v) order withdrawal;

(vi) late order withdrawal/retarget;

(vii) change of deployment class;

(viii) incorrect call-out;

(ix) category D Port; and

(x) reversal of Category D Port.

(b) are not included in the ULLS network costs.

33 The ULLS network costs are:

(a) not recovered by Telstra as part of the following charges:

(i) call diversion;

(ii) invalid request;

(iii) service qualification;

(iv) order withdrawal;

(v) late order withdrawal/ retarget;

(vi) change of deployment class;

(vii) incorrect call-out;

(viii) category D port; and

(ix) reversal of category D port.

(b) are not included in the ULLS specific costs.

DATED: 11 August 2006

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[c-i-c]

ANNEXURE A TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - REVISED SPECIFIC COSTS MODEL

- [c-i-c]

ANNEXURE B TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - CFW4 ENTERPRISE AGREEMENT (2002-2005)

[c-i-c]

CONFIDENTIAL ANNEXURE C TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - PAY RATES FOR CFW4

[c-i-c]

ANNEXURE D TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - EXTRACTS FROM TELSTRA'S INVESTMENT EVALUATIONS GUIDELINES

[c-i-c]

ANNEXURE E TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - LSS SPECIFIC COSTS MODEL

ANNEXURE F TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - xDSL PROFIT AND LOSS STATEMENT

ANNEXURE G TO THE SUPPLEMENTARY STATEMENT OF [c-i-c] - DSL, ULL & LSS SPECIFIC COSTS SUMMARY

- [c-i-c]