



7 April 2017

Ms Nicole Ross
Water and Wireline Markets Section
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

By email: superfastbroadbandinquiry@acc.gov.au

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Dear Ms Ross,

ACCC further consultation on pricing for the SBAS and LBAS final access determination (FAD) joint inquiry

This letter provides Telstra's response to the ACCC's further consultation on pricing for the SBAS and LBAS FADs (**Further Consultation**), published on 24 March 2017.

Introduction

This response specifically addresses the proposal made by the ACCC in relation to the 'rebalancing of the Telstra price benchmarks'. The proposal is made by the ACCC on the basis of the system limitations and costs associated with introducing differential aggregation charges between the Fibre Access Broadband (**FAB**) service and the Wholesale ADSL (**WADSL**) service. These limitations and costs mean that the pricing approach included in the Draft Decision would lead to an inefficient outcome that would not be in the LTIE.

Telstra agrees that an alternative approach is required. In this respect, Telstra considers there are good reasons for adopting the WADSL prices in their entirety as a benchmark for the FAB service. These are set out below. The proposal put forward by the ACCC in its Further Consultation involves rebalancing the FAB price benchmark, such that the aggregation charge is the same as WADSL and the port charge is lowered to achieve a similar revenue outcome to that of the Draft Decision. This approach is less preferred by Telstra because it introduces a risk of cost under-recovery. In any case, Telstra emphasises that it is critical that the aggregation charge component be defined such that it can move as the underlying WADSL aggregation charge moves over time (as opposed to being defined as an absolute number).

The current regulated prices for Telstra's WADSL service are the most appropriate benchmark for the FAB service

In applying the relevant legislative criteria to determine an appropriate price benchmark and advance the LTIE, consideration should be given to the cost-reflectiveness of the proposed benchmark. To this end, Telstra considers that the regulated WADSL prices represent a simple and fair benchmark reflective of the reasonable costs of supplying the FAB service.

Given the shared network architecture between the WADSL service and the FAB service, a large share of costs for delivery of the FAB service are captured in the Fixed Line Services Model (**FLSM**). However, the FLSM was not intended to cover FAB services and not all costs associated with delivering this service are captured in the model. While the FAB service is closely aligned to the WADSL service in terms of the product construct, it is not identical and in this context applying service-specific costs as a benchmark introduces a risk of cost under-recovery. Applying the regulated WADSL price benchmark for the FAB service minimises this risk and, in Telstra's view, will provide for the recovery of costs that are not included in the FLSM, thereby promoting an outcome in Telstra's legitimate business interests.

Further, Telstra considers that adopting the WADSL price in its entirety as the benchmark promotes the LTIE because this approach:

- Avoids unnecessary complication in the methodology for setting wholesale prices for the FAB service;
- Promotes price stability as it replicates the regulated prices currently in place for the FAB service under the interim access determination; and
- Maintains the prevailing relativity between the aggregation and port charges, and between the port charges for the different zones.

The re-balancing of the Telstra price benchmark is a less preferred but workable alternative

The ACCC's proposal to rebalance the FAB price benchmark as described in the Further Consultation is not Telstra's preferred alternative pricing approach because it introduces a risk of cost under-recovery for the FAB service as described above. The ACCC's proposed approach also results in unnecessary complication, does not promote price stability due to discrepancy with current regulated prices and distorts prevailing relativity between the aggregation and port charges. The proposal does, however, reflect that the system limitations and costs associated with introducing differential aggregation charges between the FAB service and the WADSL service warrant an approach distinct from that in the Draft Decision.

FAB benchmark aggregation charge must move in step with WADSL over time

As set out in detail in Telstra's submission to the Draft Decision, allowing the aggregation charge for the FAB service to be the same as the equivalent charge for the WADSL service avoids implementation costs for both Telstra and access seekers, given that Telstra would ultimately need to attempt to recover some of these costs, including through charging for the supply of additional AGVCs in each State in which the access seeker supplies a FAB service. Whichever approach is adopted in the FAD, the aggregation charge component must be defined to allow adjustment to the FAB aggregation charge in response to changes in the WADSL prices (for example, at the expiry of the current WADSL FAD on 30 June 2019, to the extent Telstra is still supplying the FAB service at that date). The FAD should therefore define this benchmark with reference to the prevailing WADSL price, rather than as

an absolute number. This is critical to avoid significant costs associated with implementing differential aggregation charges between the FAB and WADSL services. This approach aligns with the benchmark applied to non-Telstra SBAS services, which is designed to change with NBN prices over time. In this way, certainty can be provided with respect to the equivalence of aggregation charges across WADSL and FAB services for the duration of the SBAS declaration.

If you have any questions relating to this response please contact Geoff Golden on (03) 8694 1428 or geoff.golden@team.telstra.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Iain Little', is positioned above the typed name and title.

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