

Before the
AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

In the Matter of)
)
)
Assessment of Telstra’s Unconditioned Local)
Loop Service Monthly Charge Undertakings)
)

SUPPLEMENTAL STATEMENT BY DAVID E. M. SAPPINGTON

My report on the merits of setting a uniform price throughout Australia for the unconditioned local loop service (“ULLS”) did not emphasize the importance of setting the price at a level that allows Telstra to recover at least the efficient costs of providing ULLS.¹ The purpose of the present statement is to emphasize this important point.

Prices for ULLS (and other customer access lines) that do not allow Telstra to recover all of the efficient costs that it incurs in providing ULLS (and other customer access lines) throughout Australia are not reasonable.² Such below-cost prices are not reasonable because they do not cover “the direct costs of providing access to” the ULLS,³ and so deny Telstra the opportunity to recover and earn a normal (competitive) return on its investments. Consequently, such prices fail to promote Telstra’s “legitimate business interests.”⁴

ULLS prices that preclude the recovery of and a normal return on investment will discourage Telstra from pursuing “economically efficient investment in the [telecommunications] infrastructure,” and thereby deny end-users of telecommunications services in Australia the benefits that flow from such efficient investment.⁵ By providing competitors with below-cost access to Telstra’s network, below-cost ULLS prices also can encourage competitors to employ Telstra’s network rather than invest in their own network infrastructure. In doing so, below-cost ULLS prices further discourage “the economically

¹ “Expert Report of David E. M. Sappington on The Merits of Uniform ULLS Prices”, submitted to the Australian Competition and Consumer Commission, 28 July 2006.

² For expositional ease, the ensuing discussion will focus on ULLS prices. However, the discussion applies more generally.

³ Section 152AH of the *Trade Practices Act* 1974 (“**the Act**”).

⁴ *ibid.*

⁵ Section 152AB of the Act.

efficient use of, and the economically efficient investment in the [telecommunications] infrastructure” in Australia.⁶

For all these reasons, ULLS prices that do not allow Telstra to at least recover the efficient costs of providing ULLS fail to “promote the long-term interests of end-users” of telecommunications services in Australia.

DAVID E. M. SAPPINGTON

August 10, 2006

⁶ *ibid.*