

PUBLIC VERSION OF THE CONFIDENTIAL TELSTRA SUPPLEMENTARY SUBMISSION IN RELATION TO PRICE IN THE MATTER OF TELSTRA'S ULLS MONTHLY CHARGES UNDERTAKINGS DATED 23 DECEMBER 2005

A INTRODUCTION

1 On 23 December 2005, Telstra gave to the Australian Competition and Consumer Commission ("**Commission**") two undertakings for the Unconditioned Local Loop Service ("**ULLS**") pursuant to section 152BS of the *Trade Practices Act 1974* ("**TPA**") ("**Undertakings**"). The Undertakings relate to the 6 month period from 1 January 2006 to 30 June 2006 and the 2006/07 and 2007/08 financial years.

2 On 16 June 2006 the Commission published its draft decision in respect of the Undertakings ("**Draft Decision**").

3 Since March 2002 the Commission has been publishing prices for ULLS which it considers are consistent with the criteria in section 152AH of the TPA.

B CONFIDENTIALITY

4 This submission has all of the confidential information deleted and thus may be disclosed publicly.

5 Telstra will provide this submission and the information contained in it to interested parties upon those parties signing appropriate confidentiality undertakings.

6 The confidentiality undertakings do not limit the extent to which interested parties, including the Commission, can analyse and comment on the content of this submission. Rather they are intended to prevent the distribution and use of the confidential material contained in this submission for purposes other than participating in the Commission's public inquiry relating to the Undertakings.

C. SUBMISSIONS

7 Telstra refers to the statement of [c-i-c] dated 21 August 2006. In that statement [c-i-c] presents evidence of the price trends for inputs which comprise the network costs of ULLS. The price trends are as follows:

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

8 The Commission has, over time, set prices for ULLS as follows:

DATE	PRICE				
	Applicable time	Band 1	Band 2	Band 3	Band 4
March 2002 ¹	2000/01	\$12	\$35	\$39	\$59
	2001/02	\$13	\$35	\$39	\$58
June 2003 ²	2003/04 - 2005/06	\$11-\$14	\$20-\$23	\$35-\$40	\$80-\$100
October 2003 ³	2003/04- 2005/06	\$ 13 (subject to adjustment) ⁴	\$22 (subject to adjustment) ⁵	\$40 (subject to adjustment) ⁶	\$100 (subject to adjustment) ⁷
October 2004 ⁸	2003/04- 2005/06	\$ 13	\$22	\$40	\$100
August 2006 ⁹	2005/06	\$7.20	\$17.70	\$34.20	Not disclosed by ACCC

9 Based on the above prices and the SIO distributions provided to the Commission in Telstra's PIE II model, the weighted average prices of ULLS for bands 1 to 3 are;

¹ ACCC, "Pricing of unconditioned local loop services (ULLS), Final Report", March 2002, page 49.

² ACCC, "Draft Determination for model price terms and conditions of the PSTN, ULLS and LCS services", June 2003, page 64.

³ ACCC, "Final Determination for model price terms and conditions of the PSTN, ULLS and LCS services", (October 2003), page 84.

⁴ These price figures are based on a forecast demand of 140,000 lines by 2005. An adjustment mechanism allows for the prices to be adjusted - for every deviation of 100,000 lines of actual demand from forecast demand, the prices are correspondingly adjusted by \$1 (with a cap at 60%): ACCC, "Final Determination for model price terms and conditions of the PSTN, ULLS and LCS services", (October 2003), page 84.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ ACCC, "Assessment of Telstra's undertakings for PSTN, ULLS and LCS, Draft Decision", October 2004.

⁹ Interim Determination in arbitration as reported by Phil Sweeny, Telstra Gets Bad News on ULL, 14 August 2006, <http://whirlpool.net.au/article.cfm/1658>.

- (a) \$36.23 for 2000/01;
 - (b) \$36.21 for 2001/02;
 - (c) \$36.21 for 2002/03 (using 2001/02 pricing);
 - (d) \$30.01 for 2003/04;
 - (e) \$29.99 for 2004/05; and
 - (f) \$25.62 for 2005/06 (assuming band 4 price is equal to 2004/05 price of \$100).
- 10 From the above, it is clear that the prices set by the Commission for bands 1 to 3 have been falling over time and significantly so. Based on the Commission's prices, the price trend for ULLS from 2000/01 to 2005/06 is:
- (a) Decrease of 29% over all bands (assuming 2005/06 band 4 price is equal to 2004/05 price of \$100);
 - (b) Decrease of 40% in band 1;
 - (c) Decrease of 49% in band 2; and
 - (d) Decrease of 12% in band 3.
- 11 This is in stark contrast to the rise in prices for the inputs necessary in the provision of ULLS. Accordingly, Telstra submits that the Commission's approach to reducing ULLS prices over time is unreasonable and cannot be reconciled with the evidence on the price rises of inputs used in the provision of ULLS.

D. CONCLUSION

- 12 Telstra submits that the Undertakings are reasonable and should be accepted by the Commission.

Dated: 21 August 2006