

COMMERCIAL IN CONFIDENCE

9 January 2015

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Dear Ms Weier

Connection and disconnection charges as part of the fixed line services FAD inquiry

I refer to your letter dated 5 December 2014, requesting information from Telstra regarding third-party contractor costs for connection and disconnection of ULLS, LSS and WDSL services. Specifically, the letter requests that

...Telstra provide the ACCC with the most recent quotes obtained as part of its competitive tendering processes for connection and disconnection work for the ULLS, LSS and wholesale ADSL services.

Attached to this letter are data on the current Schedule of Rates (SOR) for the relevant work items involved in the connection and disconnection of ULLS, LSS and WDSL services.

It is important to note that these rates reflect a fundamentally different contractor model than was in place when Telstra previously provided similar data to the ACCC for the purposes of determining regulatory pricing for these services. The changes Telstra has made to its contractor arrangements since the ACCC last assessed these costs in the context of determining ULLS and LSS connection and disconnection charges mean that it is not possible to directly compare contractor rates to those previously provided. If the ACCC is seeking to update existing models used to determine the regulated price for these services, care must be taken to ensure all relevant costs (including [REDACTED]) for all relevant work items are captured.

Changes to Telstra's third-party contractor arrangements

In 2010, Telstra made a significant change to the management of its external contractors in an effort to increase flexibility, productivity and efficiency of these arrangements. Prior to 2010, a series of Tier 1 contractors ([REDACTED]) were engaged

by Telstra to carry out a range of installation of services, repair and maintenance work of the fixed line network.

Structural and contractual issues that were identified with the Tier 1 partners impacted on flexibility and innovation in responding to emerging needs of Telstra and our end users. These arrangements saw the contractors operate as suppliers, rather than partners. As such, there was minimal imperative for the Tier 1 suppliers to be more innovative and responsive to Telstra's changing requirements.

In 2010, [REDACTED] approached Telstra with a proposal to partner with Telstra to provide these services. The arrangement that was developed saw Telstra take on additional risk and fixed costs (related to [REDACTED]) and realise great cost effectiveness in the delivery of the specified work tasks.

Current arrangements and attached data

Under the current arrangements, [REDACTED]. These rates are set out in Table 1 of the attached spreadsheet. The rates set out in Table 1 are only for the specific work items set out, and do not include rates for tasks associated with the specified work tasks. These additional tasks are necessary to complete the specified ULLS/LSS or WDSL activity. Table 2 in the attached spreadsheet sets out an adjusted SOR which takes into account these additional tasks.

[REDACTED] Telstra pays these overhead costs directly and separately to the agreed SOR. In addition to overhead costs, [REDACTED]. Table 3 sets out a "fully loaded" SOR that reflects the distributed rate data set out in Table 2, as well as [REDACTED]. The data set out in Table 3 represent the closest analogue to rates previously provided by Telstra to the ACCC in the context of previous contractor arrangements.

In addition to these costs, Telstra bears its own internal costs associated with the connection and disconnection of ULLS, LSS. These Telstra overhead costs are not set out or included in the attached data.

Telstra would be happy to meet with you and your team to further explain the current arrangements that are in place with [REDACTED] and costs associated with this arrangement. Please note that the attached spreadsheet and this letter is confidential.

Please contact Alister Montgomery (03 8649 2008 / alister.montgomery@team.telstra.com) or Jodi Gray (03 8649 6264 / jodi.gray@team.telstra.com) should you have any queries.

Yours sincerely,



Jane van Beelen
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