

Public Policy and Communications

Executive Director Regulatory Affairs
Unit 11, Level 2
11 National Circuit
BARTON ACT 2600

Telephone 02 6208 0740
Facsimile 02 9261 8390

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Kim Huynh
Communications Group
Australian Competition and Consumer Commission
GPO Box 520 J
MELBOURNE VIC 3000
Email: kim.huynh@accc.gov.au
Fax# 03 9663 3699

Dear Kim

Telstra's March 2008 ULLS Undertaking for Band 2: Request for further information

Thank you for your letter dated 28 March 2008 (**28 March Letter**).

Please be assured Telstra will make every effort to ensure the ACCC is satisfied that Telstra's ULLS undertaking is reasonable. As demonstrated by Telstra's multiple meetings and discussions with the ACCC in relation to the undertaking to date, Telstra acknowledges such efforts may include meeting with the ACCC on an ongoing basis, as well as providing to the ACCC additional information that it may require for the purpose of considering the undertaking.

As a result of one meeting on 11 March 2008, the ACCC requested a submission on Telstra's WACC and the reasonableness of Telstra's ULLS Undertaking. Telstra provided those submissions to the ACCC by 4 April 2008 as promised in that meeting.

By the 28 March Letter, the ACCC reiterated its request for a submission in relation to Telstra's WACC, as well as requesting two additional items of information. The three items of information requested were:

- Reconciliation – the mathematical calculations and TEA model parameter changes used to reconcile Telstra's proposed ULLS undertaking monthly charge of \$30 for Band 2 and the TEA model's estimate of a ULLS monthly charge of approximately \$50;
- WACC – The source data and how Telstra derived the 'default' WACC input parameters, and;
- O&M and indirect factors – the source and how Telstra derived O&M factors, indirect expense factors, indirect asset factors and network support asset factors.

In relation to the first point (reconciliation), Telstra has not undertaken any mathematical calculations or made changes to the TEA model parameters to reconcile the \$30 ULLS price to the approximately \$50 ULLS TSRLIC+. Consequently, there is no information for Telstra to provide to the ACCC on this point. Telstra has explained the difference between the \$30 ULLS Undertaking price and the TSRLIC+ of ULLS of approximately \$50 in its submission titled "*Telstra's ULLS Undertaking is Reasonable*" provided to the ACCC on 4 April 2008. For your ease of reference, Telstra states in that submission:

A \$30 ULLS price, while at this stage below TSLRIC+, is a reasonable first step for industry to take toward TSLRIC+-based pricing and cost recovery.

Telstra's proposed charge of \$30 is reasonable for a number of reasons, including the fact that it is fully supported by the results of the TEA model under any reasonable set of inputs. Since the TEA model is a TSLRIC+ model, the proposed charge is consistent with the statutory criteria. Additionally, the \$30 undertaking price reflects the level persistently sought in commercial negotiations with access seekers as well as in previous regulatory proceedings. Therefore, it in no sense amounts to a "rate shock" for access seekers. It is open to the Commission to find, on our evidence, that a higher price would also be reasonable. However, this is not a reason to reject Telstra's undertaking as it does not mean that the \$30 price charged over the term of Telstra's ULLS Undertaking is unreasonable.

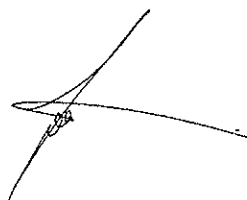
In relation to the second point (WACC), Telstra lodged with the ACCC a submission titled "Weighted Average Cost of Capital (WACC)" on 4 April 2008. This submission sets out the source data of the WACC input parameters and explains how the 'default' WACC input parameters are derived.

In relation to the third point (O&M and indirect factors), a submission titled "Operations and Maintenance and Indirect Cost Factor Study" and a spreadsheet making the relevant calculations are attached to this letter. These materials set out the source data of the factor inputs (including line references to Telstra's RAF accounts) and explain how the default inputs were derived. Because the submission and spreadsheet are based on Telstra's RAF accounts these materials are strictly confidential to Telstra. Telstra will provide versions of these documents that can be made available to other interested parties over the course of this week.

The 28 March Letter requests that Telstra propose an estimated response date by 7 April 2008. In light of the submissions provided on 4 April 2008, the content of this letter and the attached submission, I am pleased to be able to provide Telstra's complete response to the ACCC's 28 March Letter today.

As such, I trust that there is no need for Telstra to provide an estimated response date, since Telstra considers that your formal information request under s152BT of the *Trade Practices Act 1974* has, from the date of this letter, been completely fulfilled. Please let me know if you consider that this is not the case and do not hesitate to contact me should you wish to discuss.

Yours sincerely,



Tony Warren
Executive Director Regulatory Affairs
Public Policy and Communications