

19 December 2014

Jane Goldwater
Australian Competition and Consumer Commission

By email to: Jane.Golderwater@acc.gov.au

Dear Ms Goldwater

As you are aware, iiNet is an active participant in the ACCC's public inquiry into making new final access determinations (**FADs**) for:

- the six fixed line services¹; and
- the Wholesale ADSL service (**WDSL**),

(the Declared Services).

As previously submitted by iiNet, in broad terms, there are only three possible outcomes as regards the primary prices for each of the Declared Services in the new FADs:

- access prices go down;
- access prices go up; or
- access prices stay the same.

As previously submitted by iiNet, in determining which of these outcomes is most appropriate, a highly relevant consideration is the outputs that are determined by the ACCC's fixed line services model (**FLSM**) without making any adjustments to the methodology that was used when the FLSM was used to set prices for the current FADs for the Declared Services.² In other words, the FLSM is simply rolled forward on the basis of updated forecasts for demand, opex and capex for the new regulatory period and no changes are made to how the FLSM currently deals with cost allocation and declining demand (**the FLSM Roll Forward**).

¹ These are: the Local Call Service (**LCS**), Line Sharing Service (**LSS**), the Fixed Originating Access Service (**FOAS**), the Fixed Terminating Access Service (**FTAS**), the Unconditioned Local Loop Service (**ULLS**) and the Wholesale Line Rental Service (**WLR**).

² Public inquiry into final access determinations for fixed line services — primary price terms Discussion Paper - July 2014 Submission by iiNet Limited, 5 November 2014, at section 7.

iiNet believes that the outputs of the FLSM Roll Forward are highly relevant, and should be given weight, because the ACCC has previously determined that the current methodology used in the FLSM will deliver outputs that are consistent with the applicable statutory criteria.³ In light of this, iiNet has sought expert assistance from Frontier Economics to determine the following questions:

1. What final pricing outputs for the Declared Services would be determined by the FLSM Roll Forward for a new regulatory period from 2014/15 to 2016/17?
2. If the output prices for the Declared Services that result from the FLSM Roll Forward increase or decrease at different rates for each Declared Service, is there a way to 'smooth' (i.e. achieve a fixed rate increase or decrease for each service) the outputs across each of the Declared Services in a manner that would not lead to any under or over recovery by Telstra as compared to a scenario where no 'smoothing' was done?

For the purposes of the FLSM Roll Forward, Telstra's Fixed Services Forecast Model has been used to update the inputs for demand, opex and capex. At the outset, it should be noted that use of Telstra's Fixed Services Forecast Model for the FLSM Roll Forward should not be taken as acceptance by iiNet that Telstra's Fixed Services Forecast Model is fit for purpose. iiNet is aware of a number of problems with Telstra's Fixed Services Forecast Model that need to be rectified before it can be fit for purpose. iiNet will address the ACCC on these issues separately. iiNet has used Telstra's Fixed Services Forecast Model 'as is' for the FLSM Roll Forward in order to avoid any unnecessary debate about the overall outcome of the FLSM Roll Forward (that is whether it results in prices going down, going up or staying the same). The FLSM Roll Forward that has been done by Frontier Economics results in the following access prices for the period 2014/15 to 2016/17:

Table 1: Estimate of nominal service prices for a Final Access Determination period running to 2016/17

Years	ULLS Band 1 to 3 average \$ / month	ULLS Band 4 \$ / month	WLR \$ / month	PSTN OTA ¢ / minute	LCS ¢ / call	LSS \$ / month
2011/2012	15.87	47.45	22.94	0.99	8.84	1.75
2012/2013	16.21	48.18	22.69	0.93	8.80	1.80
2013/2014	16.56	48.95	22.88	0.92	9.10	1.85
2014/2015	14.80	44.98	19.32	0.65	5.90	5.25
2015/2016	15.01	45.56	19.66	0.63	5.24	6.11
2016/2017	13.08	39.09	17.30	0.64	5.42	7.79
Average 2012-14 (Current FAD price)	16.21	48.19	22.84	0.95	8.91	1.80
Average 2015-17	14.30	43.21	18.76	0.64	5.52	6.38

Source: Frontier Economics analysis

³ Inquiry to make final access determinations for the declared fixed line services Final Report July 2011, Chapter 16.3.

Table 2 Estimate of nominal service prices for WADSL

Years	WADSL Zone 1 port price \$ / month	WADSL Zone 2/3 port price \$ / month	AGVC/VLAN \$ / Mbps / month
2013/2014 (Current FAD Price)	24.43	29.64	32.29
2014/2015	19.62	23.81	20.54
2015/2016	18.85	22.88	16.34
2016/2017	18.86	22.89	13.95
Average 2015-17	19.11	23.19	16.94

Source: Frontier Economics analysis

iiNet acknowledges that the anomalous price increase for the LSS and the uneven spread in the rate of price decreases for the other Declared Services could create 'winners and losers' among access seekers. However, iiNet notes that a one off fall of 16.9% spread evenly across each of the Declared Services would allow Telstra to recover the required amount of revenue and avoid any potential to create 'winners and losers' among access seekers.

A copy of Frontier Economics' report is attached to this letter. iiNet has also provided the ACCC with a copy of the spread sheets that were used by Frontier Economics to undertake the FLSM Roll Forward and the price smoothing.

iiNet believes that the results of the FLSM Roll Forward support the submission previously made by iiNet that an increase in access prices for the Declared Services would, under the current circumstances, be an irrational outcome.⁴

In iiNet's view, the most appropriate outcome would be a fall in access prices for the Declared Services. Accordingly, iiNet believes that the focus of the remainder of the ACCC's inquiry should be on determining precisely how much the fall in access prices should be. In this regard, it should be noted that iiNet believes that if appropriate adjustments were to be made to Telstra's Fixed Services Forecast Model, prices would fall even further than the 16.9% stated above.

Yours sincerely

Stephen Dalby
Chief Regulatory Officer

⁴ Public inquiry into final access determinations for fixed line services — primary price terms Discussion Paper - July 2014 Submission by iiNet Limited, 5 November 2014, at section 5.