Submission in response to ACCC
Further Draft Decision – Outstanding Issues

Public inquiry into final access determinations for fixed line services – primary price terms

PUBLIC VERSION

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CONTENTS

Section 1. Executive Summary

1.1 Optus welcomes the opportunity to comment on the ACCC's further draft Final Access Determination (FAD) for the fixed line services.

1.2 We note that in adopting the further draft FAD the ACCC has largely accepted Telstra's position on opex, capex and cost allocations. The ACCC has given Telstra the benefit of the doubt on these matters notwithstanding its observation that Telstra has an incentive to inefficiently inflate its cost estimates for regulated services. Optus acknowledges, however, that the ACCC has made some necessary adjustments to the cost allocations to ensure that regulated services do not bear a disproportionate share of costs in the transition to the NBN.

1.3 Whilst the revised draft will lead to a reasonable reduction in access prices, these prices will still be well above international benchmarks. In this submission Optus will identify further adjustments that could be made to better align prices towards the efficient cost of supply. There is a strong case to make these further adjustments.

1.4 Nevertheless, Optus would support the ACCC adopting the revised draft FAD. Whilst this may not maximise the long term interest of end-users, it will deliver a reasonable and balanced outcome that will still promote competition and end-user interests during the transition to the NBN.

Price decline not due to exclusion of costs

1.5 It has been suggested by some commentators that the downward revision to the draft FAD rates is driven by the ACCC's treatment of NBN-related issues. This does not reflect the further draft decision.

1.6 The decision to reduce the rates in the FAD by an average 9.6% is largely due to lower cost of capital requirements driven by a lower risk free rate (Government bond rates). This is based on observable market data points and is not a result of ACCC discretion or judgement.

1.7 Holding the WACC constant – that is equivalent to the 2011 FAD value – results in a uniform price decline of 1.74%**.** In other words, more than 80% of the proposed decline is due to lower market interest rates and has little to do with ACCC assessments.

1.8 Optus finds that there are valid arguments that the proposed cost of capital should reflect actual Telstra data – resulting in a uniform price decline of 13.2%. This is one of a number of examples where the ACCC has chosen a value from a range of reasonable options that result in a more favourable outcome to Telstra.

Assessment of forecast expenditure

1.9 There is substantial information asymmetry in the assessment of prudency of forecast expenditure limits. Telstra is the sole-operator of fixed line networks in Australia and hence it can be difficult for the ACCC to assess prudency – and for interested parties to supply relevant inputs.

1.10 Optus notes the ACCC's concerns that many of Telstra's cost inputs have not been justified. Optus shares these concerns since there remains substantial doubt over the prudency of Telstra's forecast cost expenditure. The further draft decision has increased the allowable operating expenditure by 12% over the period of the FAD. It appears implausible that a publicly listed company would be able to deliver such levels of operating costs in the face of significant drops in demand without market reaction.

1.11 However, the impact of these excessive forecasts has been somewhat limited through the ACCC's adjustment to the cost allocation factors. This is a pragmatic approach and one Optus is prepared to support so long as there is no further adjustment to the cots allocations. Should there be any change in the cost allocation approach; there should also be a fundamental review of the prudency assessment of Telstra's forecasted expenditure.

Cost allocation decision

1.12 Optus welcomes the further draft decision to implement the ACCC's position on the treatment of NBN issues published in October 2014. Optus is of the view that no other reasonable alternative is available to the ACCC – it would be unreasonable to issue a position statement during an Inquiry and then refuse to implement the statement in a pricing decision in the same Inquiry.

1.13 The implementation of this position should not surprise any interested party, and indeed, failure to implement the position may give rise to procedural fairness issues.

1.14 Optus further supports the practical implementation of the Analysys Mason advice. While there are elements which could be adopted to improve the efficiency of the decision, Optus supports the approach to focus on cost allocators that are of material significance.

1.15 However, there are a range of reasonable further adjustments that could be made to better reflect the impact of NBN and other costs that are not related to regulated fixed line services.

Cost of capital estimate contains errors and should be lowered

1.16 The further draft decision proposes three changes to WACC parameter values, two of which are explained and one is not. The further draft provides no reasons for the change proposed to Telstra's debt premium. It does not seem appropriate or reasonable to propose changes without notice and without reason.

1.17 Optus further notes that the WACC parameters need to be consistent with the modelling method adopted. The BBM models Telstra's actual costs and actual demand. The WACC parameters must correspondingly use Telstra's actual variables where available. The current approach does this for some but not all parameters. Optus notes that Telstra's actual equity beta is around 0.4 not the assumed benchmark of 0.7. Correcting for this results in a WACC of 4.74% and a uniform price decline of 13.2%.

Correcting errors in the modelling

1.18 Optus has identified two errors in the model calculations which should be corrected:

(a) Incorrect formulas and references in forecast sheets; and

(b) Incorrect use of Spark NZ instead of Chorus NZ in international benchmarking of equity betas. Spark NZ does not own a fixed line network and is not relevant to an international benchmark of fixed line operators. Chorus NZ is the wholesale-only operator of the fixed line copper network and should be included in the benchmark.

1.19 Correcting these mistakes result in an average price decrease of 10.1%.

Section 2. ASSESSMENT OF COSTS

2.1 The draft decision raised concerns regarding the lack of information in support of the relevance, efficiency and prudency of Telstra's forecast opex in a number of areas including: the 2013-14 base year expenditures; forecast opex; propex; the forecast change in the fault rates; and the capex-opex trade-off.

2.2 Interested parties cautioned against the opex assumptions presented by Telstra; in particularly highlighting Telstra's incentives to inflate costs to regulated fixed line services. The ACCC has accepted these concerns in the further draft decision, but continues to rely upon Telstra's forecast expenditure and Telstra's reasoning on limitations to be able to accurately account for more substantial reductions over the forecast period.

2.3 For example, the ACCC has accepted the upward adjustment for forecast opex contributing over **[CiC]** to the previous opex forecasts included in the ACCC FLSM v2.0. The Further Draft Decision similarly accepts an upward adjustment for forecast capex contributing over **[CiC]** to the previous capex forecasts included in the ACCC FLSM v2.0.

2.4 The further draft decision, while accepting the inflated new forecasts continues to accept the risk of inflated costs may exist but it would be mitigated by the *"adjustment that is made to overall expenditures to account for the loss of economies of scale due to the NBN."*[1]

2.5 Optus submits that should the ACCC propose any change to the method to account for the loss of economies of scale due to the NBN it would be obliged to review its prudency assessment.

2.6 In addition to this observation, Optus wishes to comment on the assessment of opex prudency in the further draft decision. Optus remains concerned that the assessment promotes Telstra's business interest over the interests of consumers and competition. We also note that the further draft decision does not address several of Optus' concerns raised in its submission to the draft decision.

2.7 Finally, Optus has identified two errors in the model which require corrected. The effect of these corrections is to increase the average price decline to 9.71%.

Further comments on operating costs

2.8 The draft decision did not form views on the treatment of several components of Telstra's forecast operating expenditure, including: the 2013-14 base year expenditures; forecast opex; propex; the forecast change in the fault rates; and the capex-opex trade-off.

2.9 The further draft decision addresses each of these issues. However, the updated forecast opex for the ACCC FLSM v2.1 has resulted in an overall increase in the opex forecasts included in the model. This equates to over **[CiC]** per year being added to the total revenue requirement.

[1] ACCC, 2015, Public inquiry into final access determinations for fixed line services – primary price terms, Further Draft Decision: Outstanding Issues, June, p.36

Figure 1 Comparison of Telstra forecast Opex included in the FLSM

[CiC]

Source: ACCC FLSM v2.1 and ACCC FLSM v2.0

2.10 The ACCC also acknowledged:

> *Telstra does nonetheless have an incentive to inflate costs allocated to the regulated FLS where it has the opportunity to do so in order to achieve higher price where it does not face strong competition and disadvantage its competitors in downstream markets. The provision of information detailing the basis of Telstra's cost allocations can help to address questions of prudency and efficiency in respect to these regulated FLS costs. The deficiency of the information provided by Telstra on these allocations was the key reason why the ACCC could not reach a decision on the prudency and efficiency of these costs in the draft decision.*[2]

2.11 Telstra has submitted revised forecasts since the release of the draft decision, and it appears that the May 2015 forecasts are being considered as the relevant base/starting point for comment. This use of the May 2015 forecasts disregards many of the comments that were raised in reply submissions, and may still remain valid in the current context. Optus welcomes further reasons from the ACCC as to how the latest forecasts address concerns raised by interested parties in response to the draft decision.

2.12 The ACCC's Further Draft Decision for forecast opex states that:

(a) Telstra's 2013-14 base year values have been further rebased and are higher than earlier iterations of Telstra's forecast expenditures. In response to concerns about traceability and relevance, Telstra has also provided other information to support its position and, with some minor exceptions, the ACCC has decided *"to accept Telstra base-year operating expenditures as prudent and efficient (with the exception of NBN-related propex)."*[3]

(b) For forecast opex, a number of assumptions intended to reflect cost-volume relationships and changes in response to demand have been revised. In the draft FAD the only firm decisions made by the ACCC regarding opex was the removal of NBN-related propex; the removal of Telstra's upward adjustment to its Business Unit Support mark-up, and an adjustment to Telstra's forecast CPI. The further draft decision however has reversed the BU support mark-up decision and further revised the adjustment to Telstra's forecast CPI.

(c) The ACCC continues to accept the inclusion of propex as an operating expenditure (and retains the exclusion of NBN-related propex from consideration). In particular, the ACCC has accepted Telstra's information on the relevance of non-NBN related propex in the provision of fixed line services. In addition, the BU support mark-up and hence Unattributable Indirect mark-up has been applied to this cost category, which has further added to the forecast opex amounts.

[2] ACCC, 2015, Public inquiry into final access determinations for fixed line services – primary price terms, Further Draft Decision: Outstanding Issues, June, p.19

[3] ACCC, 2015, Public inquiry into final access determinations for fixed line services – primary price terms, Further Draft Decision: Outstanding Issues, June, p.45

(d) There has been no change to the Networks CSD opex assumption for fault rates. The ACCC maintains that Telstra's forecast fault rate is both prudent and efficient and concluded that *"while the NBN rollout may be indirectly contributing to the growth in network faults and fault rectification operating expenditure, Telstra has sufficiently demonstrated that the rollout is not a direct cause of the growth in network faults."*[4]

(e) There is limited explicit recognition of the capex-opex trade-off continues to exist, however the further draft decision states that Telstra "*has appropriately considered the capex-opex trade-off in its forecast expenditures as it continues to substitute capital expenditure for operating expenditure*."[5]

2.13 Optus considers that the ACCC has only made minimal changes to the forecasts provided by Telstra. It is not clear that the further draft decision adequately responds to issues raised in response to the draft decision. The accumulation of these adjustments results in an overall uplift in the opex forecasts.

2.14 Optus remains concerns that when the ACCC has a range of reasonable values to choose from, it appears to choose values that promote Telstra's business interest over the interests of consumers and competition.

Impact of changes to Telstra's forecast model

2.15 Optus notes several significant changes to Telstra's forecast model have led to a material increase in the forecast opex included in the FLSM.

(a) The reversal of the ACCC's position on the BU Support mark up from an uplift of **[CiC]** back to the **[CiC]** has materially increased overall forecast opex since it applies to all opex cost categories. Telstra also noted that it has 'corrected' the application of this mark up to also apply to Propex which was identified by KPMG to understate the Telstra's forecast opex. This change has flow-through implications on the calculation of the Unattributable Indirect mark up, further increasing the overall opex forecasts.

(b) There has been a significant increase to the ITS and TSO cost centre as a result of the increased 'Allocation of ITS costs to IT systems by Asset Class'. **[CiC]**

2.16 The ACCC appears to be satisfied that Telstra has provided sufficient information on the mapping of costs from general ledger to FLSM asset classes, and therefore accepts Telstra's use of mark ups. In particular, it acknowledges *"Telstra's pervasive employment of mark-ups and cost ratios to account for its indirect costs is an indication of the extent to which Telstra could not rely on its costing system for the attribution of costs to FLSM asset classes."*[6]

2.17 This position does not sit well with the observation that Telstra has "*an incentive to inflate costs allocated to the regulated FLS"* nor the fact that this is the sixth iteration of costs Telstra has provided, each of which leads to an increase in costs. Every error identified by Telstra results in a higher cost forecast. This appears curious in the context of the accepted incentive to inflate costs.

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[4] ACCC, 2015, Public inquiry into final access determinations for fixed line services – primary price terms, Further Draft Decision: Outstanding Issues, June, p.43

[5] ACCC, 2015, Public inquiry into final access determinations for fixed line services – primary price terms, Further Draft Decision: Outstanding Issues, June, p.43

[6] ACCC, 2015, Public inquiry into final access determinations for fixed line services – primary price terms, Further Draft Decision: Outstanding Issues, June, p.27

2.18 Notwithstanding these concerns, Optus has identified the following errors in the model which require correction prior to the final decision:

(a) In the 'Opex Forecasts' tab – The formulas for TEBA and Other TPA racks (at rows 461 and 466) should be revised as it refers to the wrong cells within the 'Demand Forecasts' tab. The current model results in the overstating of the number of TEBA and Other TPA racks in the Networks cost centre. Correcting for this error reduces the total forecast electricity expenditure to be incurred in the Networks cost centre.

(b) In the 'Capex Forecasts' tab – The input assumption for the inflation rate in 2014/2015 (see cell J22) should be revised to 2.50% to reflect the ACCC's Further Draft Decision. This results in minor changes to the overall capex forecasts, and hence implications for the Propex forecasts for the calculation of overall opex forecasts.

2.19 Applying these changes to the Telstra forecast model, and hence the ACCC FLSM, results in a price decline of 9.71 percent.

Section 3. COST ALLOCATIONS

3.1 Optus recognises that aspects of the assessment of cost prudency is dependent upon maintaining the cost allocations proposed in the further draft decision. The ACCC accepts Telstra's forecast opex, propex and capex as prudent and efficient on the basis of the adjustments made in cost allocations due to the NBN.[7]

3.2 Optus supports the cost allocation approach adopted in the further draft decision. We welcome the implementation of the October 2014 NBN Position Statement. The implementation of this position should not surprise any interested party, and indeed, failure to implement the position may give rise to procedural fairness issues.

3.3 Optus further supports the practical implementation of the Analysys Mason advice. While there are elements which could be adopted to better promote the long term interest of end-users, Optus supports the focus on cost allocators that are of material significance. In saying that, however, several cost allocation decisions appear to place the interests of Telstra over those of consumers and competition.

Further draft decision merely implements NBN Position Statement

3.4 In October 2014 the ACCC released a position statement on the treatment of the Telstra-NBN Co arrangements for regulated pricing. This document outlined how the ACCC will treat the transition to NBN during the period of the FAD. It stated:

(a) For assets that are sold to NBN Co, the ACCC proposes to treat these as asset disposals and to remove the regulatory values of those assets from the RAB. This will ensure that assets no longer used in the provision of declared services are not reflected in regulated prices, and maintain cost reflective prices.

(b) For assets that are leased to NBN Co, the ACCC proposes to account for this in the cost allocation framework of the FLSM. Treating leased assets in this way will ensure that the costs allocated to, and recovered from, declared services reflect the costs of supplying the declared services. It will also ensure that Telstra does not continue to receive revenue from users of declared services for the share of assets no longer used to provide declared services.

(c) As a consequence of the migration of customers to the NBN, certain fixed line assets will be decommissioned or utilised to a lesser extent. The ACCC proposes to remove the regulatory values of decommissioned assets and an appropriate share of assets utilised to a lesser extent from the cost base. The ACCC considers this will ensure assets no longer used in the provision of declared services are not reflected in regulated prices and maintain cost reflective prices.[8]

3.5 In response to the draft decision, Optus submitted that the ACCC should implement its position statement in the FLSM. Optus recognises and welcomes the implementation of this position in the further draft decision.

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[7] ACCC, 2015, Further draft decision – outstanding issues, pp.36,42,

[8] ACCC, 2014, Public Inquiry into final access determinations for fixed line services—primary price terms: Position statement on the treatment of the Telstra-NBN Co arrangements for regulated pricing, Section 3

3.6 It is not clear whether procedural fairness would allow the ACCC to not implement its own position statement during the same Inquiry. There has been more than six months' notice since the issuing of the position statement and at no time during this period has the ACCC indicated that it was reviewing its position, or that it did not intend to implement the position. Therefore, it is reasonable to expect that the positions set out in the October 2014 statement would be implemented with the same set of facts.

3.7 Claims that the implementation of the Position Statement would somehow give rise to regulatory shock, or was not foreseeable, is incorrect. Regulatory shock would only arise should the ACCC not implement its stated position.

3.8 Finally, Optus again wishes to highlight that the implementation of the NBN Position Statement is not the main reason for the 9.6% decline in the average prices. The vast majority of the decline is due to the decline in the Government long term bond rate and associated rates of interest. Holding the cost of capital consistent with the 2011 FAD shows that implementing the NBN Position Statement results in unit prices remaining relatively stable for regulated fixed line services.

3.9 The implementation of the October 2014 Position Statement is reasonable and consistent with the legislative criteria and procedural fairness considerations.

Comments on specific asset classes

3.10 There are a number of examples where the ACCC has adopted Telstra's cost allocation against the advice of its expert consultant Analysys Mason, or points raised in Optus' submission to the draft decision. In such cases, the ACCC is clearly favouring Telstra over the range of options it has to choose from. That said, the impact of each of these individually is either not significant or it would take considerable time to implement an alternative approach. For this reason, the ACCC's approach appears to be a reasonable.

3.11 Comments on the adjustments to the specific asset classes are below.

Ducts and Pipes

3.12 The AM report recommends that the FLSM scale down the usage of ducts and pipes in line with the NBN rollout. The ACCC considers the AM recommendations to be reasonable; are necessary to reflect impact of FTTP/N and HFC areas; and consistent with position to remove copper cables. ACCC concludes this adjustment results in more appropriate measure of duct usage by NBN compared to fixed line.

3.13 Optus agrees with this approach. In its reply to the draft decision Optus recommended that the duct and pipes asset allocation take into account usage by NBN. The implementation proposed in the further draft decision is a practical method to reflect the relative use of ducts and pipes by NBN services.

Network land and buildings

3.14 The AM report recommends that the same adjustment apply to CAN and CORE building assets. The AM report notes that ideally floorspace or rack space occupied by each service should the cost allocator.[9] The AM report recommends that TEBA usage remains stable over the regulatory period. The ACCC agrees with the approach proposed in the AM Report.

[9] AM, 2015, p.66

3.15 Optus agrees with this approach – together with the reduction for scale. It is preferable to have adopted a more accurate floorspace allocation across all services. However, given the length of this Inquiry to date and the need for additional information from Telstra, the approach put by AM is a practical compromise – albeit a conservative compromise.

Local and trunk switching

3.16 For local switching, the AM report recommended that the port/traffic distinction be removed, specifically that [redacted] of the port-driven component be removed from the CAF framework. Only the traffic driven component should be allocated on the basis of SIOs. AM recommends that the traffic driven component also be allocated to the NBN-Telstra agreement.[10]

3.17 The ACCC agrees with this approach in principle but has declined to adopt the approach. The ACCC considers it appropriate to maintain Telstra's approach.

3.18 Optus disagrees with this conclusion, although given the likely magnitude of the impact, the ACCC approach may be a practical compromise.

3.19 For trunk switching, the AM report recommends the use of MoU as the allocator and to keep the forecast volumes relatively stable as these assets are used by both PSTN and NBN end-users. The ACCC agrees in principle with this approach, however it has decided to adopt the loss of scale approach instead – an alternative approach also proposed by AM. This further draft decision appears to be a reasonable and practical compromise.

Inter-exchange cables

3.20 The AM report recommends that the allocation approach be updated for more recent data. The ACCC rejects this approach, as it will not result in a material change to the proportion of costs allocated to regulated fixed line services. The further draft decision adopted Telstra's proposed approach

3.21 Optus notes that these recommendations do not appear to have address Optus' concerns in response to the draft decision. First, it does not represent the driver of fibre investment – capacity, i.e. data throughput. Second, it assumes that the uses of cable links are fixed and cannot be changed.

3.22 Whilst Optus disagrees with this conclusion, given the likely magnitude of the impact, the ACCC approach can be accepted on a pragmatic basis.

Transmission equipment

3.23 The ACCC agrees with the AM report recommendation to maintain allocation to other stable over the regulatory period. Optus notes, however, that the further draft decision does not address the concerns raised in Optus' response to the draft decision. It may be that the decision not to drastically alter Telstra's approach is practical given the long timeframes of this Inquiry.

Data equipment

3.24 The AM report recommends the adoption of several cost allocators that better reflect cost causation of the specific assets included in this asset class. AM notes that relying solely on

[10] AM, 2015, Assessment and verification of inputs into Telstra's CAF, p.49

number of subscribers may not be the best approach. AM also recognises that traffic generated by NBN end-users will also use many assets in this class (such as routers), and therefore a more stable traffic demand is warranted.

3.25 The ACCC does not agree with this advice due to a lack of information from Telstra. It proposes to treat data equipment as assets becoming redundant as NBN rolls out. This approach utilises SIOs as the measure of redundancy.

3.26 Optus notes the advice of AM is consistent with Optus' response to the draft decision. Optus disagrees with the ACCC's observation that SIO-based NBN adjustments are adequate. The growth in NBN traffic is likely to be much greater than the growth in NBN SIOs (remembering that the NBN business plans rely on significant increase in usage charges over time). As a result, there would be much greater (and quicker) migration based on NBN traffic rather than on a SIO basis.

3.27 The further draft decision may be a practical outcome given information available to the ACCC and the already long timeframe of this Inquiry.

Section 4. COST OF CAPITAL

4.1 The further draft decision briefly notes that the ACCC has updated the risk free rate and expected inflation in the WACC variables.[11]

4.2 A review of the Economic Parameters worksheet in the further draft decision version of the FLSM shows values differ for three categories; nominal risk free rate; nominal debt risk premium; and expected inflation (see below).

Figure 2 WACC Paramaters draft and further draft decisions

Input Values	*Further Draft Decision* FY2015-FY2019	*Draft Decision* FY2015-FY2019
Nominal Risk Free Rate	2.90%	2.50%
Real Risk Free Rate	0.39%	0.07%
Debt ratio	40%	40%
Equity ratio (calculated)	60%	60%
Nominal Debt Risk Premium	1.0895%	0.9446%
Debt Raising Costs	0.071%	0.071%
Equity issuance costs	0.0%	0.0%
Nominal Market Risk Premium	6.0%	6.0%
Utilisation of Imputation (Franking) Credits	0.45	0.45
Expected inflation	2.50%	2.42%
Corporate Tax Rate	30%	30%
Equity Beta	0.7	0.7

Source: ACCC

4.3 As noted above, the further draft states that the risk free rate and expected inflation has been updated. Optus assumes this refers to the change from 2.5% to 2.9% in the risk free rate; and the change in expected inflation from 2.42% to 2.5%.

4.4 Optus cannot find reference in the further draft decision to the change in the nominal debt risk premium from 0.9446% to 1.0895%. This makes it difficult for Optus to provide comments in relation to the change. Optus would welcome the ACCC providing reasons for this change.

4.5 Absent reasons for the change it is difficult for interested parties to assess whether relevant or irrelevant factors have been taken into account. Although Optus notes that the change is in Telstra's favour.

4.6 Optus further notes that the ACCC has maintained the equity beta at 0.7. Optus raised serious concerns with this value in response to the draft decision. We note that the ACCC does not appear to have addressed these issues in its further draft decision.

4.7 Optus raised two main issues:

[11] ACCC, 2015, further draft decision, p.8

(a) Failure to use actual Telstra data: The task, under the BBM approach, is to set prices using Telstra's actual historic pricing. The use Telstra actual equity beta is consistent with this method. The draft decision showed that Telstra's five year average equity beta is 0.34 for monthly average, and 0.45 for weekly average. An average of these two results in an equity beta of 0.4.[12]

(b) Incorrect inclusion of Telecom NZ: Table 5.5 in the draft decision incorrectly includes Spark NZ in the table of fixed line operators. Spark NZ does not own any fixed line networks. The fixed line network in NZ is owned by Chorus – a separate company. Chorus' asset beta is 0.35 compared to the asset beta of around one for Spark. This is almost the same asset beta as Telstra. Correcting the Spark equity beta in Table 5.5 result in an average equity beta around 0.67.

4.8 These concerns are magnified should the ACCC accept a higher debt risk premium on the basis of observed Telstra data. It would appear inconsistent, and unreasonable, for the ACCC to rely on observable Telstra data for some, but not all, variables. Further, it is more problematic if the ACCC uses such data to support higher values but not to support lower values.

4.9 Optus submits that as a minimum, the ACCC corrects the inclusion of a non-fixed line operator in the international comparison benchmark. Correcting to include Chorus results in the average equity beta decreasing to 0.67. This results in a nominal vanilla WACC of 5.777% and a uniform price decline of 9.9%.

4.10 Removing the change to the debt risk premium and using the corrected equity beta results in a nominal vanilla WACC of 5.719%. This results in a uniform price decline of 10.1%.

4.11 Adopting Optus' preferred approach – using Telstra observed values – results in an equity beta of 0.4. Using this value and the draft decision debt premium results in a nominal vanilla WACC of 4.74% and a uniform price decline of 13.2%.

[12] Table 5.5