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Re: Submission on the Review of Access Pricing Principles for Fixed Line
Services – draft report

Thankyou for considering this submission.

I should preface my statements by saying that I personally have seen the value of the Telstra stock fall over \$35,000 dollars over 5 years. At the time of me writing this letter the share price of Telstra was at an all time low.

I suspect that some of the devaluation in my Telstra holdings is due to the regulatory regime the ACCC has imposed on the telecommunications industry, particularly targeting Telstra.

As a consequence of this regulation and new technologies we have seen the telecommunications industry and the services it offers drastically change over the last 5 years. It has become considerably more competitive and now fixed line services not only compete between the main carrier Telstra and the companies which arbitrage the Telstra fixed line services, but competition also exists within each of the telecommunications companies and the services they offer.. For instance, fixed line versus VOIP versus Mobile. In a time where the cost of most goods and services are incrementing yearly, telecommunications appears to be one of the few industries where consumer costs are drastically reducing.

Valuing the RAB

The methodology used to adopt the value of the RAB is quite complex. My concern is that methodology and the modelling adopted can be adjusted to provide any result, and whether this result is highly flawed or accurate is only determined at some point in the future. I have much vested in the accuracy of the outcome and unfortunately if the modelling is grossly inaccurate, the ACCC and Ovum will not be accountable to me.

Is the RAB of Telstra's existing sunken infrastructure accurately valued at 7.5 Billion? If 7.5B is inaccurately low, and the price is set at a point at which Telstra cannot get adequate cost recovery, then this will have an adverse effect on Telstra for many years. The net effect here is that Telstra's competitors will effectively be subsidised by Telstra (shareholders). What recourse would Telstra have if Ovum's analysis is fundamentally flawed?

As a share holder who has seen the stock traded at almost 4 times its current value, and revenues on fixed line services exponentially lower at the hand of the ACCC, I would argue that 7.5B is a gross undervaluation of Telstra's fixed line asset infrastructure. As an individual who has seen the Federal Government force Telstra to concede that NBN co gain access to their infrastructure in order to roll out what could be well in excess of 40B dollars of new fibres through Telstra's ducts I would suggest that 7.5 B is no where near what the true value the RAB might be. If the ACCC impose an across the board WLR or 20/month then the RAB is possibly only worth 7.5B, and hence the argument of an initial 7.5B RAB becomes self fulfilling. At this point I am somewhat suspicious that this may have been the basis for determining the value of the RAB. The ACCC and Ovum start off with a monthly WLR and work back to determine the RAB? It is actually quite insulting that the ACCC would round off a WLR value to what appears to be an arbitrary figure (20.00 /month... why not \$24.53c or \$19.27?)

So I would ask, is the modelling configured to provide a pre-ordained result? Every cent on the WLR underlying figure translates to revenue to Telstra and this figure should not be regarded in such a flippant capricious manner. One concern I have is that the ACCC has had too much historical conflict with Telstra and one could argue that their true independence has been compromised.

I would ask what impact has the past adversarial dealings between the ACCC and Telstra had on any determination by the ACCC in this review and is there any ideological imperative that the ACCC is pursuing? Perhaps we should have another office, a body completely independent of the ACCC determining the access pricing for Telstra's fixed line services. Pricing should not be based on retribution, but on logic. In the past, Telstra was often referred to as the 800lb gorilla in the room. The ACCC has well and truly taken this mantle today and I would ask who protects me, an investor in Telstra, from the ACCC?

The ACCC can engage in polemics in arguing that Telstra's "*assets that have continued in use well beyond their economic lives 5.4.2*" when determining the initial RAB, but this flies in the fact that the Telstra Fixed line services are still the principal network Australia is utilising (and may be using for decades) and economic realities such as the NBN company offer to provide Telstra 11B dollars for access to the Telstra ducts. The NBN co access price was set under extreme coercion from the federal government, with threats of structural separation and exclusion from bidding for future spectrum, and yet it is well above the notional ACCC value of 7.5B as an initial RAB... How can the Telstra ducts and pipes, the sunken real estate, which will be the backbone of the NBN be considered beyond their economic life? The ACCC cannot make sweeping assumptions which negate the value of the existing infrastructure as a pure expediency. May I suggest that the academics developing the financial model pointing to such a low RAB perhaps wander outside their office and attempt to replicate a meter of sunken ducting, and then consider if the numbers they are pitching in their models are valid.

3.3.1 Cost recovery

It is one thing to extract out the potential over-valuation in any net value of the RAB due to the Telstra monopoly of the Fixed line infrastructure, but what the

ACCC fails to consider is that this infrastructure was built over many decades and was built at an enormous cost, at many multiples at the mooted 7.5B RAB. More importantly it was privatised at a price commensurate with these historical capex outlays. Because the ACCC deem and intellectualise a notional value of 7.5B for the RAB does not make it so. At an initial RAB value of 7.5B for an asset fairly sold at many multiples of this figure, by what inane logic does the ACCC believe that the “*access provider’s legitimate commercial interests are met* 3.3.1”?

3.3.2 Efficiency and innovation

The drastic reduction in the WLR will not necessarily provide incentives to improve productivity and I believe that it is actually mutually exclusive to the expectation that this will drive down the costs through innovation. Telstra has obligations to its share holders, and if maintaining returns in the form of dividends requires cutting costs, then the path of least resistance would be to simply cut costs through curbing expenditure (lay-offs, neglecting maintenance of the network etc). Innovation requires capital expenditure and the notion that somehow cutting costs will improve services is purely flawed ideology... The commercial realities faced by all private companies is that their financial inputs such as inflation, wage increases, commodity prices and exchange rates are extremely variable. As such it would be remiss for the ACCC to make the assumption that somehow setting a lower WLR mark will spark innovation independent of the day to day economic realities.

3.3.4 Competitive pricing

The ACCC contention that setting a WLR *price of \$20.00 (significantly lower than the current indicative price of \$25.57 for residential users and \$26.93 for business users* WLR price estimates) will somehow foster greater competition is incredulous. All this will do is lower revenue intake in telecommunication industry in general. Given fixed line services of the competitors of Telstra are largely based on arbitrage of the Telstra network, setting the WLR at \$20.00 or \$25.57 will not have any bearing on competition. This baseline WLR level is used by all the vendors of telephony services, and the market is best to determine, with its competing technologies like VOIP and mobile wireless as to what the WLR value should be.

4 Moving from TSLRIC+ to BBM

As a share holder who has seen the value of his Telstra stock decimated over the years, predominantly at the hand of the ACCC, I feel that the crux of this draft report is intellectualising a rationale for transferring the pricing principles from TSLRIC+ to BBM. The expediency here, it seems, is to adopt a pricing model to disadvantage Telstra. The fact that other carriers have lauded the draft report and the slump in the share value post the release of this draft indicate to me that the suggested pricing policy will be of great detriment to Telstra and that the ACCC is being heavy handed. I would urge the ACCC to show some balance and fairness to Telstra when considering the new WLR, and not to be guided by any historical dealings with Telstra. As a share holder I have suffered enormous loss at the hands of the ACCC, and I would urge the ACCC to show some restraint.

I am not anti regulation, and I agree with the notion that Telstra should not be able to dominate the sector via the monopoly ownership of the infrastructure. That said, I do not adhere to the idea that the ACCC should have carte blanche when it comes to determining the value of the RAB and the WLR rates. I have severe doubts that the ACCC can objectively set a fair value to either the RAB or the WLR levels and given the adverse impact on the revenues of Telstra at a \$20.00/month WLR mark, I want to vehemently object to the ACCC proceeding with the draft report recommendations.

Regards,

Joe Terranova