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Dear Ms O'Reilly

DTCS Final Access Determination inquiry: Bass Strait uplift – public version

This letter is Telstra's response to the ACCC's consultation on the appropriate uplift factor for the undersea component of regulated Bass Strait transmission routes.

As noted by the ACCC, the provision of regulated services over a submarine cable involves higher costs compared to similar services over a terrestrial route. The costs of submarine cable systems can also vary between different deployments, meaning no 'rules of thumb' are readily applicable. In light of these cost differences and variability, applying a benchmarked price model based on terrestrial routes to routes utilising submarine cable systems is problematic. In the current context, the proposed inclusion of an uplift factor for the pricing of Bass Strait transmission services (provided over submarine cable systems) is appropriate.

Telstra believes that the process for determining a suitable uplift factor for Bass Strait routes should have regard to cost differences, the nature of services provided and the desirability of encouraging ongoing competing infrastructure investment to help promote the long-term interests of end users (LTIE).

All of these factors suggest that the ACCC should take a cautious approach to ensure that the uplift factor sufficiently addresses these considerations.

Difference in costs between submarine and terrestrial cable systems

In the 2011 DTCS FAD, the ACCC recognised the cost differences between terrestrial cable systems and submarine cable systems by providing a 40% uplift factor to the undersea component of Bass Strait submarine cable routes.

As Telstra has previously advised the ACCC, the combination of a hostile marine environment and longer than average routes require submarine cable systems to be built out of higher quality optic fibre in comparison to terrestrial deployments, the use of more robust shielding

and waterproofing technologies and the deployment of higher grade transmission equipment at cable start/end points.

The operational costs of submarine cable systems can also be highly variable and when disruptions arise, significant costs can be incurred in terms of arranging a repair ship and locating the exact location of a fault. Weather conditions, the availability of replacement parts and the nature of any specialist equipment required can also impact the timing of repair or maintenance activities. The bespoke nature of submarine cables systems also means their operational and establishment costs are heterogeneous in nature.

While these differences constrain the application of cost based models, they still warrant consideration in price setting contexts. To this end, including an uplift factor on benchmarked terrestrial pricing is the appropriate approach.

Nature of services

The nature of the services ordered over the Bass Strait route differ from those typically ordered over terrestrial counterparts. Instead of being a mix of service capacities and distances, Bass Strait services are by their nature long distance (noting the underwater component of 300 kilometres) and tend to be provisioned at higher levels of capacity. [C-I-C begins] [REDACTED] [C-I-C ends]

The ACCC's recent draft DTCS FAD foreshadowed significant price reductions for long distance, high capacity services relative to the earlier 2011 FAD prices.¹ Given the higher cost factors associated with submarine cable systems, were these prices to be transposed to Bass Strait routes without a suitable uplift factor, significant questions could arise in regard to service viability.

Infrastructure investment and competitive dynamics

While Bass Strait routes are currently regulated, Telstra notes that the presence of a second provider — Basslink — has generated competitive tension for wholesale customers. Thus, the Commission will be promoting the LTIE by ensuring regulated price ceilings in no way limit the viability of competitive infrastructure investment.]

Conclusion and model specification

Based on the issues discussed above, Telstra suggests a cautious approach be taken to determining the appropriate uplift factor for the undersea component of the Bass Strait transmission route. Without further information regarding the methodology used by the ACCC to propose a 140% uplift, it is difficult to say whether it sufficiently covers the considerations listed above.

Telstra can confirm however, that an uplift of 140% on the lowered base set by the recent draft DTCS FAD would still represent a significant (above average) reduction in regulated pricing for wholesale customers on the Bass Strait route. As such, an uplift of 140% should be considered the minimum level of appropriate uplift. A more appropriate uplift factor for the Bass Strait route would maintain price stability relative to the previous FAD, which delivered outcomes that were in the LTIE.

¹ See: <https://www.accc.gov.au/regulated-infrastructure/communications/transmission-services-facilities-access/domestic-transmission-capacity-service-final-access-determination-inquiry-2014/draft-decision-on-dtcs-fad>

Of course, the appropriate uplift factor depends on the model ultimately chosen by the ACCC in the final DTCS FAD. Where the chosen model raises/lowers base pricing in comparison to the model used by the ACCC to calculate the proposed 140% uplift, a commensurate adjustment to the uplift factor should be provided to offset these changes.

As a related comment, Telstra notes the Commission's reference to model 5 in its Bass Strait consultation. Telstra continues to have reservations about this model, and believes in principle that it is unsuitable for use in the Bass Strait context because it makes special provision for short distance, low capacity services. Consistent with our previous submissions, Telstra continues to believe model 1C is the most suitable for use in the forthcoming FAD.

Telstra would be happy to discuss any of the matters raised in this letter with you and your team. Should you have further questions please contact Justine Bond on Justine.Bond@team.telstra.com or (02) 9866 0269.

Yours sincerely

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