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Public Policy and Communications

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Dear Richard

Telstra Corporation Limited - response to request for further information – PUBLIC VERSION

I refer to Michael Cosgrave's letter dated 12 March 2008, which requested further information from Telstra in connection with its 8 October 2007 applications for exemption from the standard access obligations in respect of the declared PSTN originating access service ("**PSTN OA**") ("**PSTN OA Exemption Applications**").

In addition to its formal response to the Commission's information request that was lodged with the Commission on 21 May 2008, Telstra now provides the following additional documents to the Commission in support of the PSTN OA Exemption Applications:

- Statement of Professor Martin Cave 30 May 2008 in relation to the application of the ladder of investment hypothesis to the PSTN OA Exemption Applications of 8 October 2007;
- Statement of Dr Paul Paterson of 3 April 2008 in relation to Telstra's WLR/LCS Exemption Applications;
- Statement of Telstra Employee of 2 April 2008 on the provision of ADSL services (relied upon by Dr Paterson);
- Market Clarity Report on Microwave Base Station Availability and Transmission Services, dated 2 April 2008 (relied upon by Dr Paterson); and
- Statement of Telstra Employee of 29 May 2008.

Telstra would also like to briefly address some specific issues raised by other respondents to the Commission's Discussion Paper, which are not dealt with by the Statements referred to above.

SingTel Optus' comments on the use of PSTN OA for the provision of business and government services

SingTel Optus has raised a number of points in submissions on Telstra's PSTN OA Exemptions, as well on Telstra's WLR and LCS Exemptions, arguing that these services are required for it to provide competitive, enhanced calling services, to business and government customers.

SingTel Optus' general concerns regarding this issue have been addressed by Dr Paul Paterson in his 3 April 2008 report (attached).

In addition to the general points raised by SingTel Optus and addressed by Dr Paterson, it is important to point out the fallacy of SingTel Optus' arguments on this matter as they relate to PSTN OA. The key point made by SingTel Optus is that PSTN OA is required to allow it to supply sophisticated enterprise and government customers with enhanced calling features that are not enabled on its "consumer grade" ULLS network. Irrespective of whether or not Optus' network can support the same, fewer or more services and features than Telstra's, the argument that PSTN OA is required by Optus for this reason is plainly false. It simply cannot be the case that PSTN OA is required to deliver enhanced switching services as the PSTN OA service does not include or enable the provision of enhanced, value-added PSTN switching services. By definition, PSTN OA is a service that enables an acquirer to use their own switching network to provide differentiated services from those offered by Telstra's resale long distance product set.

Soul Communications' comments on Local Call Override

In Soul's brief letter of December 2007, Soul asserts that the use of PSTN OA and the Soul override code allows it to differentiate itself from market players, and effectively compete with Telstra. However, what Soul is describing is simply arbitrage behaviour, seeking to exploit a perceived differential between regulated wholesale pricing for short held calls between Local Call Override (LCO) and the Local Carriage Service (LCS). In that regard:

- Telstra's views on the inappropriate use of LCO were set out in its 11 September 2006 submission to the Commission's paper on the LCS and WLR draft indicative prices and there is no need to repeat those comments here¹ other than to make it clear that Telstra does not consider LCO to be part of the PSTN OA declared service.
- In any case, for the purposes of this inquiry, the Commission need not resolve the question of whether LCO forms part of the declared PSTN OA service or not. Nor is the Commission required to express any views on the correct pricing principles for LCO. The Commission noted in its final decision in the 2006 indicative prices for Local Services that "*(i)n any event, the Commission considers that it is not appropriate to deal with this issue as part of the pricing principles. Rather, it is more appropriately dealt with through commercial negotiation and, if necessary, in an arbitration*".
- [c-i-c]
- Irrespective of whether local calls are delivered via LCS or LCO and irrespective of whether or not these services are regulated, the real issue is whether the

¹ Telstra's observes, however, that the Commission's refers, in its Final Indicative Pricing Report of November 2006 to the fact that LCO "generally represents an inefficient use of network infrastructure as it often uses more network elements that are necessary to efficiently convey a local call."

availability and use of alternative infrastructure, including ULLS, enables the competitive supply of voice services that would otherwise be reliant on regulated LCS or equivalent services such as LCO in order to make workable competition viable. Telstra has put forward compelling evidence that, in the market for fixed voice services in the Exemption Areas, this is overwhelmingly the case.

- [c-i-c]

[c-i-c]

Cave Statement

Finally Telstra refers to and adopts the conclusion of Professor Martin Cave that it is now timely to remove the PSTN OA based rung of the ladder of investment so as to promote efficient competition in downstream markets including markets for both voice and broadband services.

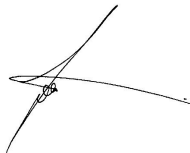
Further Discussion

Telstra would be pleased to meet with the Commission to discuss any of the information it has provided, as well as any other matters the Commission may wish to discuss in relation to Telstra's PSTN OA Exemption Applications.

This letter and the documents attached contain information that is confidential to Telstra. Telstra will provide public versions shortly.

If you have any questions about this letter or the attachments to it, please contact Paul McLachlan on 02 9298 5559.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony Warren', with a long horizontal stroke extending to the right.

Tony Warren
Executive Director Regulatory Affairs
Public Policy and Communications