TELSTRA CORPORATION LIMITED

Final Access Determinations (FADs) Inquiry – additional information in response to information request under the BBM RKR

February 2014

Public Version

1 Introduction

On 13 September 2013, the Australian Competition and Consumer Commission ("**ACCC**") requested Telstra to provide certain information under Rule 15 of the Building Block Model Record Keeping and Reporting Rule ("**BBM RKR**") for the purposes of its review of the Fixed Line Services Model ("**FLSM**"). The ACCC is undertaking this review of the FLSM as part of its Fixed Services Review.

On 25 November 2013, Telstra provided the ACCC with data and explanatory material (the Explanatory Statement) as required under the BBM RKR. Following subsequent discussions between Telstra and ACCC staff, the ACCC wrote to Telstra on 17 January 2014 seeking additional and clarifying information with respect to certain aspects of Telstra's BBM RKR Return. The following data and other material (which should be read in conjunction with the Explanatory Statement) seeks to address this request.

2 Operating expenditure

In response to the BBM RKR, Telstra provided forecast estimates for operating expenditure attributable to the relevant FLSM Asset Classes, as well as indirect operating expenditure applicable to the fixed line services.

As noted in the Explanatory Statement (p.10), operating expenditure estimates are the sum of contributions from Telstra Operations (specifically, CSD, Networks, ITS, TSO and BU Support), operating expenditure related to capital projects (propex), Telstra Wholesale costs associated with the supply and support of the regulated fixed line services, a mark-up contribution to account for unattributable (common) costs, as well as a separate estimation of operating expenditure related to the LSS.

In its Request for Information, the ACCC states:

> *Telstra's December 2013 note states that Telstra is able to provide a detailed breakdown of direct operating expenditure by activity drivers and also by expenditure types for the direct and indirect operating expenditure of the two key contributors*—**[C-I-C starts]** [redacted] **[C-I-C ends]**. *The ACCC considers that the breakdown by activity drivers is necessary for its assessment and requests this information for each of the contributors to operating expenditure as detailed in the report. The ACCC also considers that the disaggregation of operating expenditure by expenditure types (e.g. labour/wages and associated costs, license fees, rent and etc.) for the two key operating expenditure contributors is necessary for its assessment. The ACCC therefore requests this be submitted by Telstra for its assessment.*

This further material is set out below.

Breakdown of operating expenditure by contributing factor

Table 1 sets out the contribution of Telstra Operations (CSD, Networks, ITS, TSO and BU Support), Propex, Telstra Wholesale, Unattributable mark-up and LSS to total estimated operating expenditure with respect to the relevant FLSM Asset Classes (as well as indirect operating expenditure) for FY2014:

Table 1: Breakdown of Operating Expenditure Forecast, by contributing factor and FLSM Asset Class, FY2014 **[C-I-C starts]**

[redacted]

[redacted]

- [redacted]
- [redacted] **[C-I-C ends]**

Further breakdown of operating expenditure for key contributing factors by relevant drivers and cost categories

The following section provides further breakdowns of the individual contributors to the opex forecasts for FY2014: Customer Service Delivery (CSD), Networks, IT Services, Telstra Service Operations (TSO), Telstra Operations BU Support, Propex and Telstra Wholesale for each FLSM Asset Class (as well as for indirect operating expenditure relevant to the fixed line services); showing the different drivers/categories of operating expenditure for each contributing factor.

Customer Service Delivery (CSD) LOB

As set out on page 14 of the Explanatory Statement, direct operating expenditure from CSD attributable to the FLSM Asset Classes has been calculated by using the coding information contained within the Telstra General Ledger. Relevant operating cost lines directly attributed to an asset within a given FLSM asset class are summed to provide the operating expenditure estimate for that FLSM asset class with respect to CSD.

Further information can be extracted from these accounting records to detail the drivers of this expenditure (specifically the particular activity code associated with the expenditure) as well as the type of expenditure (e.g. wages, salary and associated labour costs).

The following table illustrates the breakdown of CSD contribution to operating expenditure in FY2014 by FLSM asset class and expenditure driver (activity code). Operating expenditure from CSD relevant to the FLSM Asset Classes can be categorised into one of six activity code groupings: faults, proactive and routine maintenance, installation, disaster remediation, customer conversion, and network retirement.

Table 2: Breakdown of Direct CSD Operating Expenditure, by Activity Type, FY2014 **[C-I-C starts]**

- [redacted] **[C-I-C ends]**

The following table provides an alternative breakdown of direct operating expenditure incurred by CSD relevant to the FLSM Asset Classes by expenditure type – either labour/wages and associated costs and other costs:

Table 3: Breakdown of Direct CSD Operating Expenditure, by Expenditure Type, FY2014 **[C-I-C starts]**

[redacted]

- [redacted]
- [redacted]
- [redacted] **[C-I-C ends]**

In addition to operating expenditure directly attributable to the FLSM Asset Classes, CSD also contributes indirect operating expenditure relevant to the Fixed Line Services. Table 4 illustrates the breakdown of this indirect operating expenditure (as at FY2014) by driver **[C-I-C starts]** [redacted] **[C-I-C ends]**

Table 4: Breakdown of CSD indirect operating expenditure, FY2014 **[C-I-C starts]**

[redacted]

[C-I-C ends]

Networks LOB

For Networks' contribution to estimated operating expenditure, direct operating expenditure can be broken down by three key cost categories: **[C-I-C starts]** [redacted] **[C-I-C ends]**

Table 5: Breakdown of Direct Networks Operating Expenditure, by Expenditure Type, FY2014 **[C-I-C starts]**

[redacted]

[redacted]

- [redacted]
- [redacted] **[C-I-C ends]**

In addition to operating expenditure directly attributable to the FLSM Asset Classes, Networks also contributes indirect operating expenditure relevant to the Fixed Line Services. Table 6 illustrates the breakdown of this indirect operating expenditure (as at FY2014) by driver **[C-I-C starts]** [redacted] **[C-I-C ends]**

Table 6: Breakdown of Networks indirect operating expenditure, FY2014 **[C-I-C starts]**

[redacted]

[redacted]

- [redacted]

[redacted] **[C-I-C ends]**

IT Services

As set out in the Explanatory Statement provided as part of the RKR Return, Telstra noted that operating expenditure related to IT systems related to the FLSM Asset Classes were included in the direct operating expenditure estimates. These systems are:

- MITS - Module Inventory Tracking System; the Telstra Database of Record (DBoR) for inter-exchange network inventory and its physical connections;
- TPNI - Telstra Physical Network Inventory, which aids in the planning, design, construction, utilisation and maintenance of Telstra's Customer Access Network, and the Inter Exchange Network;
- CRAMER-LI – supports business activities related to the management of logical network inventory;
- TRUESOURCE - is a Network Discovery and Inventory Reconciliation system used to compare and align live Telstra Network Inventory data with logical inventory systems data;
- XDM - Cross Domain Manager, which provides the capacity to manage network functions across multiple domains;
- STS - Sales Transaction Solution is a Front of House system (replacement for PHOENIX and AOE). STS supports the sales process end to end; and
- NPAMS - Network Plant Assignment and Management System, manages the Telstra CAN and allocation of telephone numbers. NPAMS is the DBoR for Copper and Pair Gain Systems in the CAN;

As set out in the Explanatory Statement (p.17), Telstra's internal cost allocation model NECTAR is used to determine those IT Systems for which Telstra allocates costs to asset categories within the FLSM Asset Classes. NECTAR is then used to determine the costs for these systems that are allocated to the particular FLSM Asset Classes. The following table (Table 7) sets out the proportion of total costs for each IT system allocated to the FLSM Asset Classes.

Table 7: Proportion of system costs allocated to FLSM Asset Classes **[C-I-C starts]**

System	% of cost allocated to FLSM Asset Classes
CRAMER-LI	[redacted]
MITS	
NPAMS	
STS	
TPNI	
TRUESOURCE	
XDM	

[C-I-C ends]

The following table provides a breakdown of operating expenditure incurred by IT relevant to the FLSM Asset Classes by IT system:

Table 8: Breakdown of Direct ITS Operating Expenditure, by IT System, FY2014 **[C-I-C starts]**

[redacted]

[redacted] **[C-I-C ends]**

In addition to operating expenditure directly attributable to the FLSM Asset Classes, ITS also contributes indirect operating expenditure relevant to the Fixed Line Services. Table 9 shows the breakdown of this indirect operating expenditure (as at FY2014) by driver **[C-I-C starts]** [redacted] **[C-I-C ends]**

Table 9: Breakdown of IT Services indirect operating expenditure, FY2014 **[C-I-C starts]**

[redacted]

[redacted]

- [redacted]
- [redacted] **[C-I-C ends]**

Telstra Service Operations (TSO)

As set out in the Explanatory Statement (p.16), Telstra Service Operations operating expenditure relevant to the Fixed line Services was calculated using a labour survey data to determine the FTE employees involved in the management, assurance, operation and other services related to the fixed line services. Based on this analysis, relevant costs were allocated to the Indirect Capital Assets FLSM asset class.

The four relevant TSO cost categories are: **[C-I-C starts]**

- [redacted]

[redacted] **[C-I-C ends]**

The following table sets out the breakdown of TSO cost categories relevant to the FLSM Asset Classes.

Table 10: Breakdown of Direct TSO Operating Expenditure, by cost category, FY2014 **[C-I-C starts]**

[redacted]

[redacted] **[C-I-C ends]**

In addition to operating expenditure directly attributable to the FLSM Asset Classes, TSO also contributes indirect operating expenditure relevant to the Fixed Line Services. Table 11 shows the breakdown of this indirect operating expenditure (as at FY2014) by driver **[C-I-C starts]** [redacted] **[C-I-C ends]**

Table 11: Breakdown of Telstra Service Operations indirect operating expenditure, FY2014 **[C-I-C starts]**

[redacted]

[redacted] **[C-I-C ends]**

Telstra Operations Business Unit Support

As set out in the Explanatory Statement (p.17), to estimate the Telstra Operations Business Unit Support contribution to relevant operating expenditure, the proportion of the FY2014 aggregate budget for the CSD, Networks, Service Operations and IT Services LOBs that had been estimated to apply to the FLSM Asset Classes was applied to the respective FY2014 budgets of each Operations LOB support group. The contribution of each support group is set out below:

Table 12: Breakdown of Operations Business Unit Support indirect operating expenditure, FY2014 **[C-I-C starts]**

[redacted]

[C-I-C ends] *Propex*

As set out in the Explanatory Statement (p.17), Telstra calculated operating expenditure related to investment projects using a consistent approach to the estimation of forecast capital expenditure (to which propex necessarily applies).

Propex can be categorised into one of three expenditure drivers (i.e. expenditure program type): **[C-I-C starts]** [redacted] **[C-I-C ends]**.

Table 13: Breakdown of Propex Operating Expenditure, by driver, FY2014 **[C-I-C starts]**

[redacted]

[C-I-C ends]

Propex is calculated as a proportion of capital expenditure. Historic propex to capex proportions at the capital project level were used to determine the forecast propex estimates. Table 14 shows the average propex to capex proportions by FLSM Asset Class for each year from FY2011 to FY2014, as well as the average over the period FY2015 to FY2019.

Table 14: Breakdown of Propex Operating Expenditure, by driver, FY2014 **[C-I-C starts]**

[redacted]

[C-I-C ends] As noted in the RKR Explanatory Statement on page 15, Telstra has utilised IMC level data in preparing its propex forecasts. Table 15 sets out the 10 largest contributor IMC codes to propex relevant to the FLSM Asset Classes over the forecast period. The top 10 IMC codes contribute **[C-I-C starts]** [redacted] **[C-I-C ends]** to aggregate propex relevant to the FLSM Asset Classes over the forecast period.

Table 15: Top-10 IMC codes by contribution to propex relevant to the FLSM Asset Classes **[C-I-C starts]**

IMC Code	Description
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[C-I-C ends]

Table 16 shows the breakdown of the top 10 IMC codes (in terms of propex) by FLSM asset class for FY2014.

Table 16: Breakdown of Propex Operating Expenditure for top 10 IMC codes (in terms of propex), FY2014 **[C-I-C starts]**

[C-I-C ends] *Telstra Wholesale*

As set out in the Explanatory Statement (p. 18), estimates of relevant operating expenditure contributions from the Telstra Wholesale Business Unit were based on Telstra Economic Model cost allocations. Relevant indirect (attributable) costs for the regulated fixed line services (ULLS, LSS, PSTN OA and TA, WLR, LCS and WDSL) were assessed for the period FY2011 to FY2013 to estimate these services' average share of Telstra Wholesale's total operating costs. This proportion was then applied to Telstra Wholesale's budget for the same cost categories for FY2014 to estimate Telstra Wholesale's contribution to the FLSM operating expenditure. It should be noted that for these services no direct operating expenditure was recorded by Telstra Wholesale and unattributable costs were excluded from the calculation. A contribution towards unattributable (corporate overhead) costs is estimated separately (see Explanatory Statement, p. 18).

Table 17 sets out the relative contributions of the different indirect cost categories for FY2014.

Table 17: Breakdown of Telstra Wholesale Expenditure by cost category **[C-I-C starts]**

[C-I-C ends] Further questions on operating expenditure

1. *The Explanatory Statement section of the report states that three components of the operating expenditure forecast (i.e. Telstra Wholesale, unattributable costs and the Service Operations LOB) are based on the declared fixed line services' share of the FY2014 budget. However, this appears to be on a different basis to other components of the operating expenditure forecasts, which are based on costs relevant to the FLSM Asset Classes. Please provide operating expenditure forecasts in terms of costs relevant to the FLSM Asset Classes for Telstra Wholesale, unattributable costs and the Service Operations LOB.*

As set out in the Explanatory Statement, Telstra has sought to provide the ACCC with its best view of relevant forecast operating expenditure by determining operating expenditure attributable to the relevant FLSM Asset Classes, as well as indirect operating expenditure applicable to the fixed line services.

The basis for determining relevant operating expenditure is different across different contributing factors (e.g. Telstra Operations LOBs, operating expenditure related to capital projects (propex), Telstra Wholesale) and by cost type – i.e. whether the cost is directly attributable, indirectly attributable or unattributable.

In the context of the FLSM Asset Classes:

- Directly attributable include cost items written directly against an asset category that maps to an FLSM asset class (such as the case for direct CSD operating costs), or costs that can be directly allocated to the FLSM Asset Classes (such as direct Networks, ITS, TSO and propex operating costs)
- Indirectly attributable costs refer to those costs that cannot be directly attributed to a particular FLSM asset class, but are causally attributable to the fixed line services supplied over the FLSM assets. Examples of indirect costs include the indirect operating expenditure estimates for the Telstra Operations LOBs and Telstra Wholesale operating costs.
- Unattributable costs refer to those costs for which there is no direct or causal attribution to the FLSM Asset Classes. These costs include central administration and support costs – such as HR, legal support, finance, and corporate administration.

Given the above, and as set out in both the Explanatory Statement and throughout Section 2, Telstra has sought to clearly delineate those operating costs that are relevant to the fixed line services *and* can be directly attributed to one or more of the FLSM Asset Classes and those costs that are relevant to the fixed line services, but cannot be directly attributed to a particular FLSM Asset Class. Although different methods have been used to estimate different cost contributors (and different cost types), this does not invalidate either the individual contributing factor estimates, or the overall forecast estimates.

As noted by the ACCC, examples of indirectly attributable operating costs include costs incurred by Telstra Wholesale in the sales, billing, support and management of the declared fixed line wholesale services. Similarly, unattributable costs associated with corporate overheads and central support functions are not estimated on a per FLSM Asset Class basis (although the estimated mark-up of **[C-I-C starts]** [redacted] **[C-I-C ends]** is applied to each FLSM Asset Class in Table 1). It should be noted that the ACCC's third example, the contribution of the Telstra Service Operations (TSO) LOB, is directly attributable to a FLSM Asset Class (see table 10).

Although these costs are not directly or casually attributable to specific FLSM Asset Classes, these costs (as well as the other contributions to indirect operating expenditure set out in the BBM RKR return, and explained further throughout Section 2) are clearly relevant costs in the context of the fixed line services to which the FLSM applies. For example, training and overhead costs borne by the CSD LOB are not directly attributable to a particular FLSM Asset Class, however it is appropriate to recover a proportionate contribution of these costs from the fixed line services.

2. *Page 22 of the Explanatory Statement section of the report states that the key drivers* **[C-I-C starts]** [redacted] **[C-I-C ends]** *Please provide:*
   a) *Evidence to support the view that recent levels of these drivers form the best basis on which to forecast operating expenditure for the forecast period.*

b) *How these key drivers and operating expenditure are forecast to be impacted by the NBN rollout over the forecast period.*

Telstra considers that in order to properly assess the reasonableness of the forecast operating expenditure estimates relevant to the FLSM Asset Classes, it is necessary to consider the full range of factors that impact on operating expenditure – and how Telstra has taken these factors into account in the BBM RKR estimates.

There are three major factors that impact on changes in operating expenditure year on year: **[C-I-C starts]**

[redacted]

[C-I-C ends]

In considering the reasonableness of Telstra's forecast estimate for operating expenditure it is important to consider the likely direction and impact of each of these factors, and the forecast view implicit in the operating expenditure forecasts. The drivers of each of these factors and their relative importance in the context of the fixed line services (and forecast operating expenditure as set out in the BBM RKR) are considered below.

[C-I-C starts] [redacted]

[redacted]

[C-I-C ends]

[C-I-C starts]

[redacted]

[redacted]

[C-I-C ends] In recent years, Telstra has commenced a significant implementation of the Net Promoter System (NPS) as part of broader re-emphasis on customer service and service quality. As noted by our CEO in announcing Telstra's FY2013 results,

> *"The combination of almost real time feedback from our customers and a heightened awareness of our customer connection is starting to make a difference. We still have much to do to create the type of customer centred company we want to be. We are on that journey. We still*

make mistakes, and I still receive many complaint emails from customers every day. The point is, if we make a mistake we make a commitment to fix it – and we improve."

[C-I-C starts] [redacted] **[C-I-C ends]**

3. *Please provide the data used to estimate the operating expenditure forecasts for the 'LSS Equipment' FLSM asset class, disaggregated by each 'line item' in the RAF (e.g. '4-2-10 MARKETING').*
4. *For the three largest RAF 'line items' making up the total 'LSS Equipment' operating expenditure, please provide a disaggregation of the components of the 'line items', if available, and how they have been allocated. In addition:*
    a. *please provide information on whether costs are direct, attributable or unattributable, and*
    b. *for attributable and unattributable costs, please provide information on how the costs were allocated (e.g. what drivers are used).*

As set out in the Explanatory Statement (p. 19), Telstra used the same data source for the estimation of LSS-related operating expenditure as that used by the ACCC in the 2011 FAD process. The relevant RAF data for FY2009 to FY2013 is set out in table 18 below:

Table 18: RAF cost items used in calculation of LSS Equipment operating expenditure, FY2009 to FY2013 **[C-I-C starts]**

[redacted]

[C-I-C ends]

Table 19 sets out the breakdown of these three cost items by direct, indirectly attributable and unattributable costs. Unattributable costs are allocated to products (including LSS) on a proportional basis. The relative value of the direct and indirect (attributable) costs for each product is used to determine the product's share of unattributable costs.

Table 19: Breakdown of major LSS Equipment cost items by cost type, FY2013 **[C-I-C starts]**

[C-I-C ends]

5. *On p. 22 of the explanatory statement section of the report, Telstra has forecast operating expenditure to* **[C-I-C starts]** **[C-I-C ends]** *in Telstra's 2013 financial year analyst briefing Telstra's CFO and CEO were quoted, respectively, as saying that 'we will continue to target similar levels of productivity improvement…' and '…our target is about a billion a year for the next three or four years'.* **[C-I-C starts]**

[C-I-C ends]

3 Capital Expenditure

In the RKR return Telstra provided capital expenditure forecasts for the period FY2014 to FY2019 by FLSM asset class. Capex forecasts were determined by estimating forecast expenditure on infrastructure programs (IMC codes) relevant to the FLSM Asset Classes.

In its Request for Information, the ACCC states:

> *Please provide this breakdown of capital expenditure by driver for each year of the forecast period as proposed by Telstra in the December 2013 note. The breakdown of total capital expenditure by driver would also further explain Telstra's capital expenditure forecasts and thereby assist the ACCC in its assessment. The ACCC requests Telstra to provide this information in the format proposed in its December 2013 note.*

This further material is set out below.

Further breakdown of capital expenditure by driver

Within the explanatory material provided as part of the RKR return, Telstra provided a breakdown of these capital expenditure forecasts by expenditure driver (i.e. expenditure program type): **[C-I-C starts]** [redacted] **[C-I-C ends]**

The following table (table 20) illustrates this breakdown for capital expenditure forecasts by driver for the FLSM Asset Classes for FY2014.

Table 20: Breakdown of Forecast Capital Expenditure, by driver, FY2014 **[C-I-C starts]**

[redacted]

[C-I-C ends]

Further breakdown of capital expenditure by investment program

As noted in the RKR Explanatory Statement on page 26, Telstra has utilised IMC level data in preparing its capital expenditure forecasts. A large number of Telstra's IMC programs make up the forecast capital expenditure estimates relevant to the FLSM Asset Classes, however there is significant variation in the relative importance of each included IMC to the forecast values.

Over the period FY2015 to FY2019, **[C-I-C starts]** [redacted] **[C-I-C ends]** IMC programs contribute to the estimated capital expenditure within the relevant FLSM Asset Classes. The distribution of estimated IMC-level spend on the relevant FLSM Asset Classes is not uniform, with the top 10 IMC programs accounting for more than **[C-I-C starts]** [redacted] **[C-I-C ends]** of forecast capital expenditure over the period. These top 10 IMC investment programs are set out in the following table (table 21):

Table 21: Top 10 IMC codes relevant to the FLSM capital expenditure forecasts **[C-I-C starts]**

IMC Code	IMC Description	Scope
[redacted]	[redacted]	[redacted]

Table 22 sets out the estimated aggregate capital expenditure for each of these 10 IMC codes by FLSM asset class for FY2014:

Table 22: Aggregate Capital Expenditure by top 10 IMC codes relevant to the FLSM Asset Classes, FY2014 **[C-I-C starts]**

[redacted]

[C-I-C ends] As set out in the Explanatory Statement, capital expenditure estimates were based on IMC-level analysis. Forecasts were based on the observed trend for expenditure at the IMC level, with forecast values generally calculated as the prior three year average for the individual IMC code, or a percentage of the three-year average. The decision to increase or decrease the forecast values of capital expenditure for a given IMC code relative to the three year average is primarily based on the observed trend (increasing/decreasing) over the period. Table 23 sets out the basis for the calculation of forecast values for the top 10 IMC codes.

Table 23: Calculation forecast capital expenditure estimates, by top 10 IMC codes **[C-I-C starts]**

IMC Code	IMC Description	Basis for forecast estimates
[redacted]	[redacted]	[redacted]

[C-I-C ends] The following charts illustrate the forecast estimates for the top 10 IMC codes, providing a comparison to between forecast values and the historical values that formed the basis of the forecast estimates.

Figure 1: Actual and forecast estimates for IMC 986, IMC 985 and IMC 430, FY2010 to FY2019 **[C-I-C starts]**

[C-I-C ends]

Figure 2: Actual and forecast estimates for IMC 143, IMC 149 and IMC 358, FY2010 to FY2019 **[C-I-C starts]**

[C-I-C ends] Figure 3: Actual and forecast estimates for IMC 181, IMC 230, IMC 700 and IMC 388, FY2010 to FY2019 **[C-I-C starts]**

[C-I-C ends] Further Questions on Capital Expenditure

6. *Please provide the steps and calculations to demonstrate how Telstra has mapped the expenditure forecasts from the initial 'IMC Code' format to the final 'FLSM asset class' format. This information is necessary to understand Telstra's methodology and how Telstra defined the terms used in the Explanatory Statement section of the report such as 'asset code', 'asset category' and 'asset class'.*

The Explanatory Statement (section 5.1.2) sets out the approach Telstra used to estimate forecast capital expenditure relevant to the FLSM Asset Classes.

The FLSM Asset Classes are as defined in the FLSM mapping document, which was prepared by the ACCC and updated and refined Telstra (in consultation with the ACCC). The FLSM Mapping file linked Telstra's asset categories (as defined in the Telstra Asset Register and Regulatory Accounting Framework) to the FLSM Asset Classes. Further refinement to the FLSM Mapping file was required due to the inclusion in the asset register of additional assets, either because **[C-I-C starts]** **[C-I-C ends]**.

The FLSM Mapping file was provided to subject matter experts within Telstra Finance for the purpose of calculating

Telstra acknowledges that throughout the Explanatory Statement (as provided to the ACCC on November 25 2013), the terms "asset code", "asset category" and "asset class" are used inconsistently – particularly within section 5.1.2. In order to clarify the Explanatory Statement accompanying the response to the BBM RKR, and to assist the ACCC in better understanding the process and calculations used to estimate forecast capital expenditure, Telstra have edited Section 5.1.2 (see attached) to ensure consistency of the terminology used to describe the process of arriving at the capex forecasts.

4 Demand Forecasts

In the RKR return Telstra provided demand forecasts for the period FY2014 to FY2019. In its Request for Information, the ACCC states:

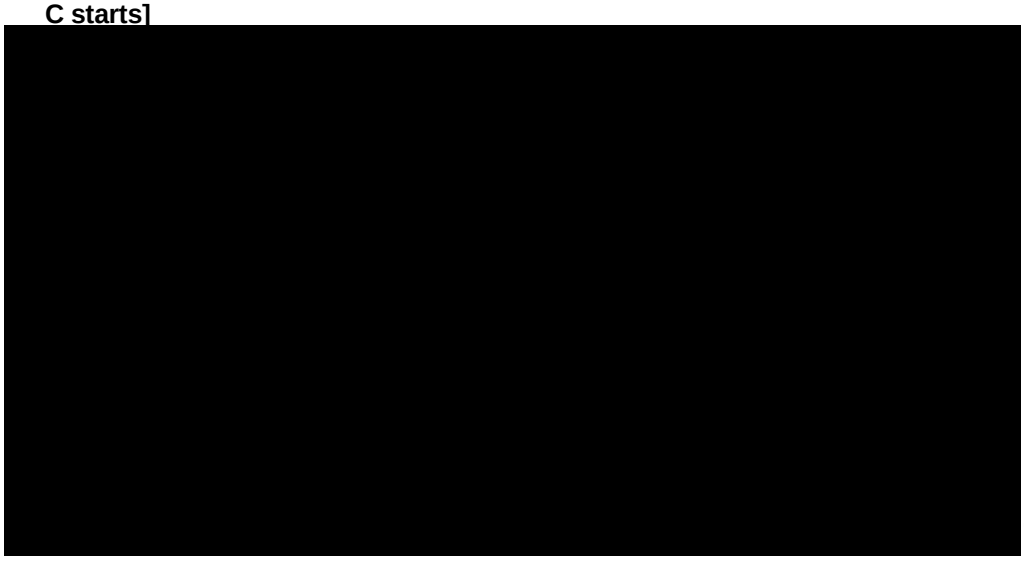
> *... Telstra stated that it is able to provide an historical comparison of past period forecasts to actual outcomes for the services, based on the forecasts used by Telstra for the purposes of its corporate planning. This comparison would further explain Telstra's demand forecasts and thereby assist the ACCC in forming a view regarding the reasonableness of those demand forecasts. Please provide this comparison for each of the service categories listed in Table C4 of the BBM RKR for the 2010-11 to 2012-13 years.*

This further material is set out below.

The following analysis assesses past period demand forecasts against actual demand. The forecast estimates used in the following analysis have been used as part of Telstra's annual planning cycle. The processes and assumptions used in the estimation of these forecasts are consistent with the approaches used in the preparation of the BBM RKR

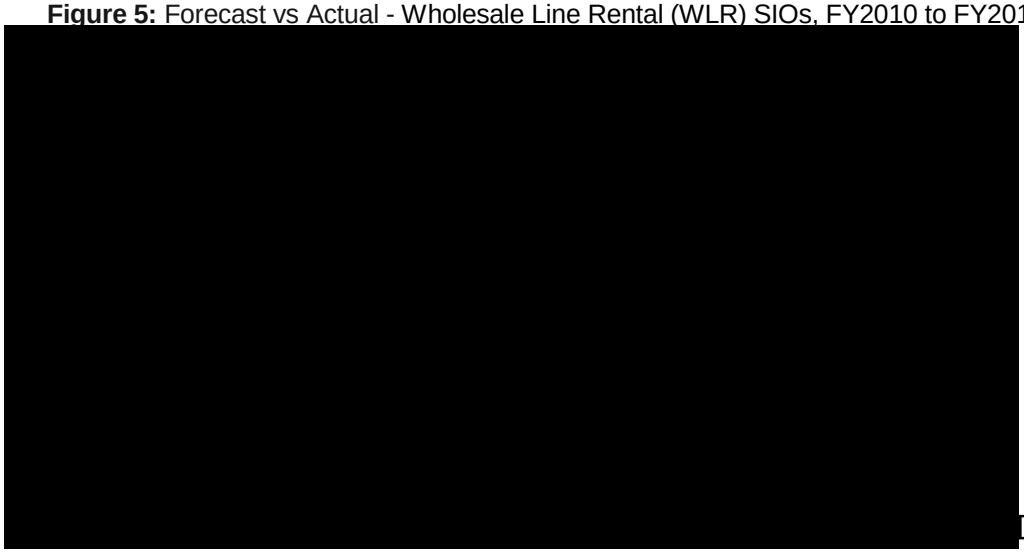
The following charts show the comparison of forecast and actual demand for ULLS, WLR, LSS, WDSL, Retail Basic Access and Retail ADSL SIOs as well as LCS call minutes. Actual values are shown for the period FY2010 to FY2013, compared to forecast values as estimated at March 2010, March 2011, March 2012. Therefore, for each service the relative accuracy of forecasts over a one year, two year and three year horizon can be assessed.

Figure 4: Forecast vs Actual - Unconditioned Local Loop Service (ULLS) SIOs, FY2010 to FY2013 **[C-I-C starts]**



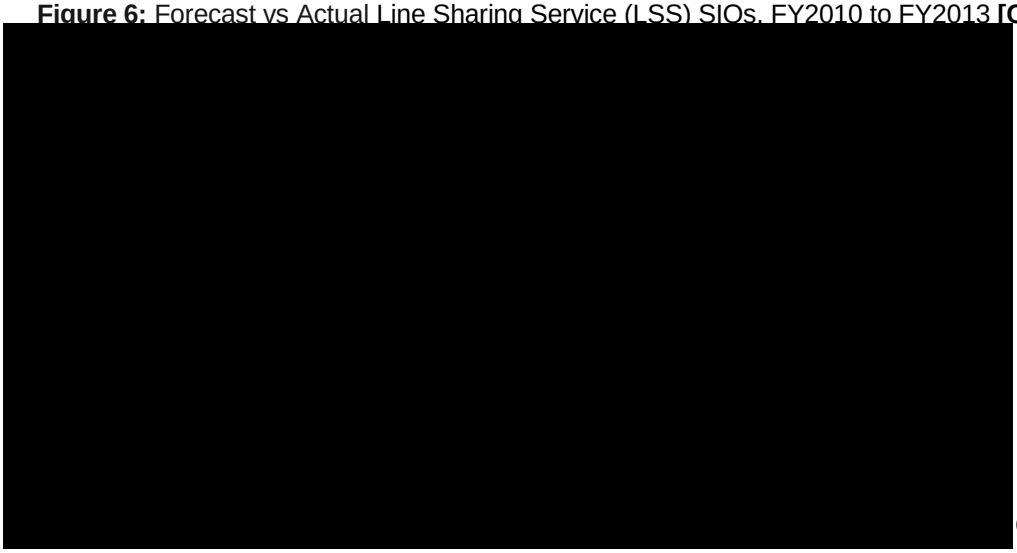
C-I-C ends]

Figure 5: Forecast vs Actual - Wholesale Line Rental (WLR) SIOs, FY2010 to FY2013 **[C-I-C starts]**



[C-I-C ends]

Figure 6: Forecast vs Actual Line Sharing Service (LSS) SIOs, FY2010 to FY2013 **[C-I-C starts]**

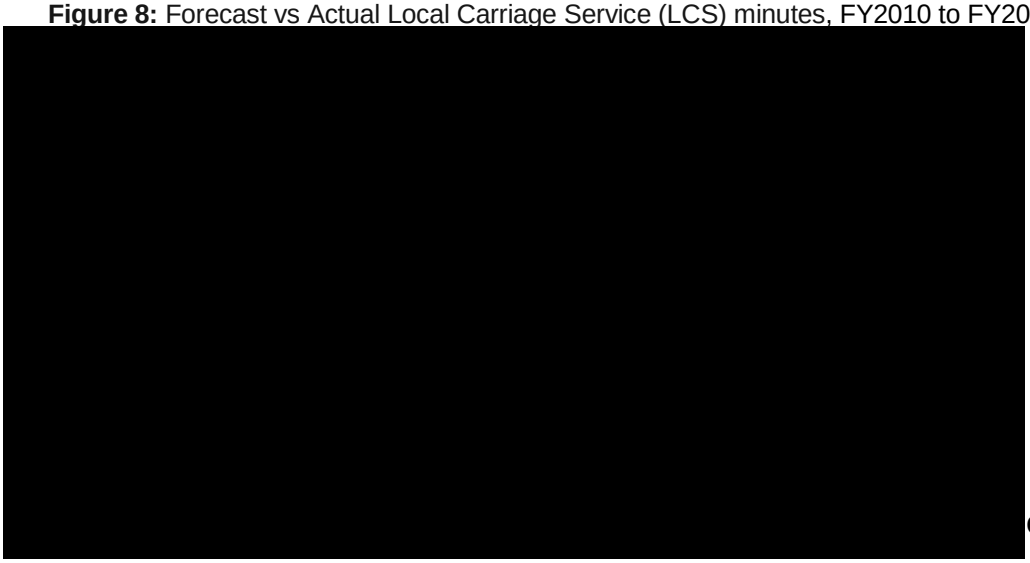


C-I-C ends]

Figure 7: Forecast vs Actual Wholesale ADSL (WDSL) SIOs, FY2010 to FY2013 **[C-I-C starts]**

C-I-C ends]

Figure 8: Forecast vs Actual Local Carriage Service (LCS) minutes, FY2010 to FY2013 **[C-I-C starts]**



C-I-C ends]

Figure 9: Forecast vs Actual Retail ADSL SIOs, FY2010 to FY2013 **[C-I-C starts]**

C-I-C ends]

Figure 10: Forecast vs Actual Retail Basic Access SIOs, FY2010 to FY2013 **[C-I-C starts]**

[C-I-C ends]

Table 24, summarises the above figures, showing the absolute average variance from actuals for forecasts over a one year, two year and three year time horizon, for each service.

Table 24: Absolute Average Forecast Variation for each service **[C-I-C starts]**

Service	1 Year Forecast Horizon	2 Year Forecast Horizon	3 Year Forecast Horizon
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[C-I-C ends]

Table 25: Absolute Average Forecast Variation, one year time horizon **[C-I-C starts]**

Service	FY2011	FY2012	FY2013
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

[C-I-C ends]