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Dear Ms van Beelen

Fixed line services pricing principles review—Request for further information

The ACCC requests further information and clarification of some aspects of Telstra’s submission to the ACCC’s review of the fixed line services pricing principles. A list of questions is attached.

I would appreciate your response by Friday 19 November 2010.

Yours sincerely

R. Wright.

Robert Wright
General Manager
Access Operations and Pricing Branch, Communications Group

Attachment: Follow-up questions on Telstra's submission to the fixed line services review and request for further information

PSTN OTA matrix

1. The ACCC requests that Telstra populates the following table for the most recent six months of data on OA and TA traffic by geographic area and average call duration.

Originating access						
	Month 2010	*Month 2010*	*Month 2010*	*Month 2010*	*Month 2010*	*Month 2010*
Calls (number)						
CBD						
Metropolitan						
Provincial						
Rural						
Calls (minutes)						
CBD						
Metropolitan						
Provincial						
Rural						
Terminating access						
Calls (number)						
CBD						
Metropolitan						
Provincial						
Rural						
Calls (minutes)						
CBD						
Metropolitan						
Provincial						
Rural						

Asset classes

2. Telstra's submission states that the Ovum BBM includes assets that should be excluded, eg. "DSLAM costs are included in the cost of WLR" (p. 6 of Telstra submission). However, it does not otherwise list the asset classes that it considers should be excluded. What assets, and the RAF asset classes where those assets are included, does Telstra consider should be excluded from the Ovum BBM? Where an asset is included within a broader asset class, the ACCC requests that Telstra identify the share ($ or %)of the value of the asset class accounted for by that asset.

3. The asset classes used by Telstra in its asset register differ from the asset classes included in the RAF. The ACCC requests a reconciliation of the asset classes used in Telstra's IDHC and the DORC RAB valuation spreadsheets (provided with Telstra's submission, email 1/10) with the asset classes from the RAF that are used in the Ovum BBM. Specifically, Telstra should identify where the 'Mux' asset class is included in the RAF asset classes and whether:

- the ‘pair gain systems’ asset class in the RAF is included in Telstra’s valuation worksheets and, if not, provide an explanation for its exclusion
- the ‘satellite equipment and international network cables’ asset class in the RAF is included in Telstra’s valuation worksheets and, if not, provide an explanation for its exclusion.

4. The ACCC also requests Telstra to identify which RAF asset classes include network land, building and support assets and specify separately the value of the network land assets, network building assets and network support assets in each RAF asset class to enable the ACCC to consider separating out these assets in the Ovum BBM, as suggested in Telstra’s submission (section 4.8). For network buildings and support assets, the total and remaining asset lives applied by Telstra to these assets should also be provided
5. Telstra’s submission notes that some assets have been fully depreciated for accounting purposes (and removed from the asset register) but are still in active use (p. 46). Please provide a list of these assets and a description of the source and reliability of this information.

Asset lives

6. What are the total and average remaining asset lives of the asset classes provided by Telstra in the Telstra Confidential – (D)IHC calculation workbook? Telstra should explain the basis for determining the total and average remaining asset lives.

Indirect operating expenditure

7. Telstra’s submission suggests that the ACCC’s indirect O&M allowance is incorrect. The ACCC seeks confirmation from Telstra that indirect operating expenditures are included in the RAF under ‘4-1 Organisation’ and ‘4-2 Product and Customer’. It asks for an explanation of how Telstra allocates these costs to service categories.

Capital expenditure

8. Telstra’s submission suggests that the ACCC’s capital expenditure forecasts are incorrect (section 5.3 of the submission). The ACCC requests that Telstra suggests alternative capital expenditure forecasts that it considers more appropriate. The ACCC notes that Telstra’s submission suggests (p. 94 of the submission) that robust forecasts are available for 1-2 years. Telstra should explain the basis for its forecasts by relating them to the drivers of capital expenditure and explaining the other factors taken into account in developing the forecasts. If possible, it would be helpful for separate explanations to be provided for ‘baseline’ projects and ‘discretionary’ projects (p. 96 of the submission) Any forecast impacts from the roll-out of the NBN should be identified and explained.
9. The ACCC notes that the annual capital expenditure for the CAN and Core asset categories included in Telstra’s 2005-06 to 2009-10 annual reports are significantly greater than the annual capital expenditure amounts included in Telstra’s RAB valuation spreadsheets for the CAN and the Core (provided with its submission). The ACCC requests a reconciliation of these amounts.
10. Telstra’s RAB valuation spreadsheets do not include the ‘pair gain systems’, ‘satellite equipment’ and ‘international network cable’ asset classes, which are

included in the RAF and the Ovum BBM. What is the capital expenditure related to these asset classes?

Indirect capital expenditure

11. Telstra's submission states that the ACCC's capital forecasts and the Ovum BBM make no allowance for 'indirect capital costs' (section 4.12 of the submission). The ACCC requests a definition of the nature of the expenditures classified as indirect capital expenditure by Telstra.
12. Telstra is asked to identify where these 'indirect capital expenditures' are included in the RAF and which asset classes they relate to.
13. The ACCC requests that Telstra proposes forecasts for indirect capital expenditure that it considers appropriate (for the period over which it believes it can identify robust forecasts). Telstra should explain the basis for the forecasts.

WACC

14. Telstra's submission has proposed an alternative method of calculating the debt risk premium (p. 84) but has not explained how it proposes to calculate a Telstra-specific DRP. How does Telstra propose to estimate the DRP? Please provide an explanation of the proposed methodology, data sources and estimated value.

Depreciation

15. The ACCC requests Telstra's detailed workings supporting the depreciation estimates referred to in para. 132 (p. 43 of its submission).

Depreciation of land values

16. Telstra's submission states that land should not be depreciated in the Ovum BBM (p. 59) because it appreciates in value. The ACCC notes that Telstra's asset register records amounts for depreciation against its network land category, particularly since 1990. Please explain this apparent depreciation of land in the asset register.

Demand

17. Telstra's submission (section 5.5) suggests that the ACCC's demand forecasts will be incorrect. The ACCC requests that Telstra suggests alternative demand forecasts that it considers more appropriate and requests an explanation of the basis for Telstra's forecasts, including a discussion of the main drivers for demand for the declared fixed line services. It also requests an explanation of the demand adjustments Telstra considers are needed to account for the roll-out of the NBN and Telstra's assessment of the degree of uncertainty attached to these forecasts.

LSS and ULLS specific costs

18. The ACCC notes that Telstra's submission (and most of the access seekers' submissions) supported the inclusion of LSS into the Ovum BBM to ensure that LSS prices are calculated on the same basis as the other declared fixed line services. The ACCC requests the following information on specific costs to enable it to consider incorporating LSS into the BBM and to separately identify the ULLS specific costs in the BBM.

- The asset classes in the RAF that include the equipment used to provide the LSS and ULLS specific cost-related services (ie. ordering and provisioning, product management and front-of-house operations) and the value of those assets, or their share of the total asset value for each asset class. The shares of those assets used to provide ULLS, LSS and ADSL internal equivalent services should be specified.
- Current and forecast operating and capital expenditures (including indirect expenditures) and relevant to determining the specific costs on an actual cost basis (not TSLRIC basis). The shares of those expenditures relating to ULLS, LSS and ADSL internal equivalent services should be specified.

Real economic returns

19. Telstra has provided estimates of its real economic returns (pp. 73-74 of its submission) and a brief description of the method it has used to estimate these returns (p. 72 of its submission). The ACCC requests that Telstra provide the detailed workings supporting these estimates, including the source of the data used.
20. Telstra should also explain why the calculation method for real economic returns (para. 262 of its submission) applies the nominal pre-tax cost of capital to the real value of assets.

RAF service categories

21. What is the definition of the ‘wholesale end user access’ service category in the RAF? Are WLR and LSS included in this service category?