

**Competitive  
Carriers'  
Coalition Inc**

---

**Submission in Response to the Telstra Undertakings on PSTN  
and LCS Services**

**July 11, 2006**

## **Introduction**

The Competitive Carriers' Coalition is an industry association representing the interests of non-dominant telecommunications carriers. Its members participate in the fixed line, mobile, residential, corporate, government, voice and data markets. All members of the CCC have invested in infrastructure to reduce their reliance on the Telstra network and to allow them to move to a sustainably competitive position. Collectively, they have well over \$4 billion invested in network infrastructure.

The CCC members are among the leading acquirers of the PSTN OT and LCS services that are the subject of these undertakings. They are therefore likely to be among those most directly effected by the undertakings were Telstra's proposals to be accepted.

The CCC is pleased to be able to provide this response to the Commission.

## **CCC Position Overview**

The CCC submits that the Telstra undertakings should be rejected because they fail to satisfy the legislative criteria of being in the long term interests of end users. The undertakings fail to provide efficient market signals to access seekers, are based on cost modeling that is unreliable and itself inconsistent with the criteria and introduces a new set of pricing constructs that would cause great disruption and price increases to access seekers. The undertakings also represent a proposal to fundamentally change pricing structures in ways that the CCC believes are inconsistent with the regulatory framework.

The CCC has commissioned and submitted further independent expert analysis from Marden Jacobs Associates of the PIE II, following work commissioned for a previous Commission inquiry. This report also considered the appropriateness of the tariff structure proposed by Telstra in its undertakings.

This analysis concludes that:

- The PIE II model is not a forward-looking cost model and is outdated in that it does not reflect present best practice network technology.
- It does not take full account of the traffic on the network therefore inflates the cost of PSTN traffic.
- It likely overstates the operational and maintenance cost of the network. Telstra has recently stated that it proposes to make very large savings in its network operations and maintenance cost, but there is no indication that PIE II has been adjusted to reflect these changes.

As a result, the report recommends that the Commission move as a priority to develop an independent, up to date network model.

In relation to the tariff structure proposed in the undertakings, the report concludes that it is inconsistent with a TSLRIC approach because it does not associate access prices with

underlying costs structures. This introduces distorted signals to access seekers and reduces transparency in access pricing arrangements.

The CCC further submits that the undertakings proposed by Telstra represent a fundamental structural shift from the arrangements that have been in place for many years. As such, the CCC submits that threshold for accepting them must be even higher than would be the case in circumstances where existing structures were preserved. In these circumstances, the impact of the prices on individual access seekers' businesses must be considered. This will inform the Commission of the "real" impact of the changes and the regulatory shock to the industry generally.

It is the CCC's view that undertakings are not the appropriate vehicle to propose such a fundamental shift in pricing structures. The Commission can only accept or reject Telstra's proposed pricing construct, and cannot make adjustments even if it were to accept the underlying principles.

The proposed changes to pricing structures would be more appropriately presented in the PSTN declaration inquiry process that has already been initiated as part of the fixed network review. However, Telstra has not presented its arguments in that context. This leads the CCC to believe that Telstra is not serious about wanting to have a discussion about these principles but is again seeking to game the undertakings process by presenting something it knows the ACCC cannot accept.

Nevertheless, to facilitate the Commission gaining a fuller insight into the impact of the Telstra proposal contained in these undertakings, individual members of the CCC have provided confidential information to the Commission based on their internal analysis of what the prices proposed by Telstra would represent. In summary, the impact on all the CCC members would be strongly negative.

This impact is a result of the inherent bias in the Telstra undertakings pricing structure against those competitors that have invested in their own network equipment and are therefore less reliant on the Telstra network.

In short, the Telstra prices are structured such that prices rise as reliance on reselling of Telstra services falls.

While many market entrants have acquired LCS as well as PSTN OT, there is no relationship between these resale and PSTN OT services that suggests they should be priced as a "package". For example, a mobile network owner has no interest in LCS, but has to interconnect to Telstra and acquire PSTN OT. There is therefore no legitimacy in arguing that the prices of these services should ratchets off each other to the extent that the acquisition of LCS reduces prices overall. This clearly discriminates against those that are not interested in acquiring resale services.

The CCC submits that this is completely at odds with the intention of the policy regime, which has explicitly sought for a decade to promote downstream competition by

encouraging investment in infrastructure wherever efficient through providing clear cost signals. This approach has underpinned regulatory action because it has been concluded that it is in the long term interest of end users.

## **Contact**

For further information please contact:

David Forman

Executive Director

CCC Inc

[david@ccc.asn.au](mailto:david@ccc.asn.au)

02 62625821